

N° 4 | 2019

# Journal



## Audit and the new EU political environment



EUROPEAN COURT  
OF AUDITORS



**Procrastination is the nightmare  
scenario for the EU**



## A pretence of a budget, a pretence of a union

By Jean Arthuis, former chairman of the European Parliament's Committee on Budgets



## INTERVIEW

Alexander De Croo, Deputy Prime Minister of Belgium

## An EU of values, including gender equality



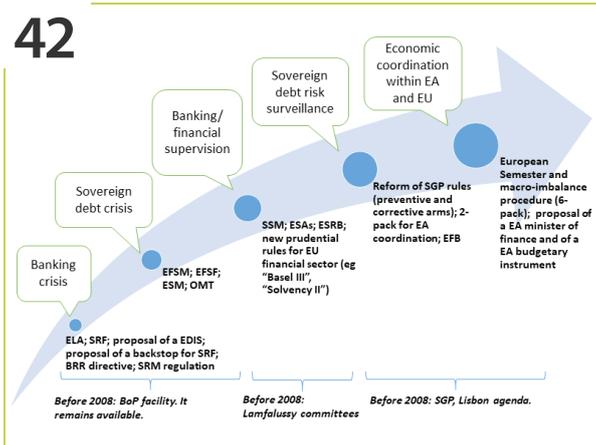
## INTERVIEW

ECA President Klaus-Heiner Lehne

## Promoting evidence-based decision making in the political process

- ▶ 04 **EDITORIAL**
- 07 **Europe's challenges in the next 5 years**  
By Maria Demertzis, Deputy Director at Bruegel
- 11 **The future is a discussion space!**  
By Jean Arthuis, former chairman of the European Parliament's Committee on Budgets
- 16 **Setting out the priority areas for 2019-2024 – the European Council's Strategic Agenda**  
By Jim Cloos, Deputy Director-General, Council of the European Union
- ▶ 20 **Surfacing the unused potential in the EU**  
*Interview with Alexander De Croo, Deputy Prime Minister*  
By Gaston Moonen
- 26 **Transparency in the Work of the EU Council: A Presidency perspective**  
By Kaisa Männistö, Permanent Representation of Finland to the European Union
- 30 **A Europe that strives for more: the European Commission Class of 2024**  
By Gaston Moonen and Clare O'Donohoe, Directorate of the Presidency
- ▶ 34 **Promoting evidence-based decision making in the political process**  
*Interview with ECA President Klaus-Heiner Lehne*  
By Gaston Moonen
- 38 **Lessons to be learnt from the past for the new MFF**  
By Zsuzsanna Csak, Directorate of the Presidency, and James McQuade, Financing and Administering the Union Directorate
- 42 **ECA's work on financial and economic governance - connecting expert views and citizens' concerns**  
By Kamila Lepkowska of the ECA's Regulation of Markets and Competitive Economy' Directorate
- 45 **Dissemination of the ECA's work beyond institutional stakeholders: the audit of the Macroeconomic Imbalance Procedure as an example of good practice**  
By Giuseppe Diana, Maëlle Bourque, Shane Enright and Stefano Sturaro, Regulation of Markets and Competitive Economy Directorate
- ▶ 49 **Well on track, but not there yet**  
*Interview with Rimantas Šadžius, ECA Member*  
By Derek Meijers and Gaston Moonen

42



## ECA's work on financial and economic governance - connecting expert views and citizens' concerns

By Kamila Lepkowska of the ECA's Regulation of Markets and Competitive Economy' Directorate

66



### ▶ INTERVIEW

Monika Hohlmeier, MEP and chair of the EP Budgetary Control Committee

## A determined CONT, counting on the in-depth knowledge of the ECA



87

### ▶ INTERVIEW

Klaus Regling, Managing Director of the European Stability Mechanism (ESM)

## Money is not the main issue at times of crisis

### 54 ECA awareness campaign – the EU's auditors at your service

By Helena Piron Mäki-Korvela, Directorate of the Presidency

### 56 First meeting of the European Parliament's Budgetary Control Committee – a fresh new start

By Jean-François Hynderick, Directorate of the Presidency

### ▶ 58 Out of politics... but still working to improve politics!

*Interview with Hannu Takkula and Annemie Turtelboom, ECA Members*

By Derek Meijers and Gaston Moonen

### 65 ECA Publications Portal – a new gateway for quick access to ECA audits and reviews

By Helena Piron Mäki-Korvela, Directorate of the Presidency

### ▶ 66 A determined CONT, counting on the in-depth knowledge of the ECA

*Interview with Monika Hohlmeier, MEP and chair of the EP Budgetary Control Committee*

By Gaston Moonen

### 69 The IX European Parliament's legislature (2019-2024) starts with many new faces in the Budgetary Control Committee

By María-Luisa Sánchez-Barrueco, University of Deusto, and Paul Stephenson, Maastricht University

### ▶ 74 Standing for a Union of values, but also a Union that adds value

*Interview with Olivier Chastel, Member of the European Parliament*

By Gaston Moonen

### 77 Developing effective working relationships between parliaments and supreme audit institutions

By Bianca Brétéché and Alastair Swarbrick, Organisation for Economic Cooperation and Development (SIGMA)

### 81 Public consultations – an essential tool for bringing the EU closer to its citizens

By Annemie Turtelboom, ECA Member

### ▶ 87 Money is not the main issue at times of crisis

*Interview with Klaus Regling, Managing Director of the European Stability Mechanism (ESM)*

By Gaston Moonen

# Table of contents



101

## ▶ ECA JOURNAL LONG READ

### In praise of the budget

By Arūnas Dulkys, Auditor General, National Audit Office of Lithuania

#### 94 **Parliaments and SAIs – a special relationship**

By Derek Meijers

#### 97 **'You don't really think climate is going to be a big thing, right?' Building Bridges in a changing EU political landscape**

By Friso Coppes, Michelle Marie Philipp and Astrid Smeets, Bureau Brussels

#### ▶ 101 **ECA JOURNAL LONG READ** **In praise of the budget**

By Arūnas Dulkys, Auditor General, National Audit Office of Lithuania

#### ▶ **FORESIGHT AND AUDIT**

#### 107 **The future is a discussion space!**

*Interview with Florence Gaub, Deputy Director of the European Union Institute for Security Studies (EUISS)*

By Gaston Moonen and Gina Wittlinger, Directorate of the Presidency

#### ▶ **NEW ECA MEMBER**

#### 110 **A former politician who wants to be, above all, a professional in audit**

*Interview with Ivana Maletić, ECA Member since 16 July 2019*

By Derek Meijers and Gaston Moonen

#### ▶ **REACHING OUT**

#### 116 **Annual joint NAO/ECA seminar in Malta**

By Annette Farrugia, private office of Leo Brincat, ECA Member

#### 119 **Konnichiwa - Japanese delegation visit at the ECA**

By Peter Borsos and Niamh Mahon, private office of Tony Murphy, ECA Member

#### 121 **President of the Slovenian Court of Audit visits the ECA**

By Samo Jereb, ECA Member

#### 123 **The 2019 ECA seminar - paving the way for the next ECA strategy**

By Gina Wittlinger, Directorate of the Presidency

#### 126 **International public audit community meets at the XXIII INTOSAI congress in Moscow**

By Alan Findlay, Audit Quality Control Directorate

#### 130 **ECA hosts ACCA conference on public sector innovation –creating value**

By Derek Meijers

#### 132 **Publishing the 2018 annual reports: same procedure as every year – or not?**

By Fabrice Mercade, Directorate of the Presidency

#### 135 **ECB and ECA sign memorandum of understanding on access to information**

By Raphael Debets, private office of Alex Brenninkmeijer, ECA Member

#### ▶ **FOCUS**

#### 138 **ECA publications in July/August/September/October 2019**

#### ▶ 143 **NEXT EDITION**

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How often have you looked at your smartphone today? And how often was this to obtain the latest news on something that particularly interests you? I recently saw a programme on television about addiction to news, in this case people who could not stop searching all the time for the latest news on the never-ending story of the UK leaving the EU. And these 'addicts' were not even Britons! Personally, I catch myself more and more often on my smart phone craving for news on the impeachment process in the US, although – typically, for most addicts – I would not call that an addiction yet. Just curiosity, rooted in a distant academic past, feeding hope for a better future.

At EU level, the past few months have certainly made us search for news on the most recent developments and perhaps glued you to your phone, too. With a newly elected European Parliament, a new European Commission soon to start its mandate, a new European Council President from 1 December 2019 onwards, and a new ECB President, the political changes are manifold. Combine this with the sense of urgency many new and also incumbent players on the EU political scene have expressed for a whole range of issues and you may feel that the EU will have to make one of the biggest transformations in its history. Towards a Union that is both green and digital and at the same time secure, socially coherent and prosperous.

This sense of urgency has culminated in high ambitions to meet expectations, fears and deadlines in almost every major policy area, whether it concerns climate, migration, defence, security, or economic growth and competitiveness. These ambitions have to be decided upon and translated into concrete action by a European Parliament which is more fragmented than ever before and a Council in which Member States increasingly seem to be defending interests which are no longer so common. This may easily neutralise the firepower that the sense of urgency can sometimes trigger in political decision-making, with the risk of putting off issues until tomorrow when decisions are needed today.

Why are all these political changes relevant to auditors, and, since we are talking about the Union in particular, the ECA? Because, although we are a non-political institution, we do work in a political environment. And because we try to be politically relevant in the sense of providing MEPs, their assistants, the working parties in the Council, the new Commission and its staff with reports, opinions and reviews to enable them to make the best possible, informed choices in their decision making. Moreover, what these decision makers are doing has an impact on the work ECA auditors do.

The ECA is the only EU institution that carries out independent checks on what is happening on the ground with EU spending on programmes and projects, and the impact of EU legislation. This provides both the ECA's institutional stakeholders and EU citizens with insights, based on evidence and analysis, into whether the EU delivers on its promises, but also whether further efforts are needed. So, basically, checking on politicians' claims! Otherwise, public cynicism lurks around the corner, undermining trust and, therefore, the democratic functioning of the EU.

Many contributors to this Journal, particularly those with a background in politics, highlight two things with regard to the ECA: the quality of its in-depth reporting and its provision of objective and independent analysis, based on evidence. Or, as Monika Hohlmeier, the new chair of the European Parliament's Budgetary Control Committee says, '...in depth knowledge from its audits in Member States is the ECA's key selling point.'

The importance of reliable information is becoming more and more evident in these times of fake news, disinformation and the shutdown of free access to information. Blurring facts, or completely replacing them, with fiction has also become one of the characteristics of the information revolution, as we can read in a recent book by Peter Pomerantsev, 'This Is Not Propaganda: Adventures in the War Against Reality.' If there is no 'shared reality,' as he calls it, people in the public realm get away with misrepresentations or worse, thereby eroding the values and norms underpinning democratic societies. He pleads for a transparent information environment which would enable us to separate fiction from facts, to prevent information being used to polarise and destroy instead of to construct.

As it is involved in public audit, the ECA's concern is not only to provide reports based on robust evidence, on reality, but also to facilitate access to its work. Over the summer, the ECA made an effort to provide easier access to the facts and analysis presented in its reports, in particular via mobile devices, by launching an online Publications Portal, a virtual ECA4MEP app. So don't be surprised if you see an MEP glued to his or her phone or iPad: they may just be looking up the latest ECA report! But this app is not only for MEPs, anyone can use it to get access to our reports, opinions and reviews. And even the ECA Journal!



# Europe's challenges in the next 5 years

By Maria Demertzis, Deputy Director at Bruegel

Many people will agree that the challenges for the EU over the next few years will be multiple and multi-faceted. Policy-making is about making choices. So which are the most pressing issues and what options are available to EU policy makers in the European Parliament, the Council and the Commission? Maria Demertzis is Deputy Director at Bruegel, a European think tank that aims to improve the quality of economic policy through research, analysis and debate. Together with her colleague Guntram Wolff she edited the book 'Braver, Greener, Fairer. Memos to the EU leadership 2019-2024'. Bruegel published this set of memos on 4 September 2019, presenting major challenges to be addressed by the new political leaders in the EU. Below Maria Demertzis identifies some key issues for EU decision-makers to consider.

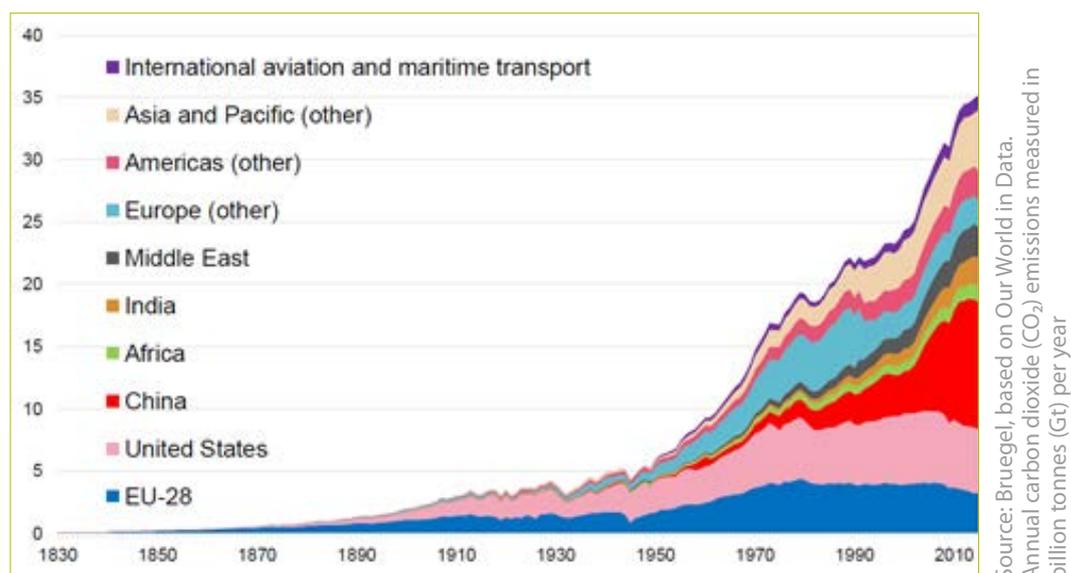
## Need for collective European action

Europe is no longer in crisis mode. But it remains vulnerable, it is unprepared and it is procrastinating. Challenges ahead cannot be met by simply more of the same, and this is a good time to be reminded of that. Following the European elections in May 2019, new leaders are about to take up their positions at the main European institutions for the next five years. They have the power in their hands to take action. But more importantly, they have the power to convene 28 states, which, if united, can play a significant global role. What are the urgent challenges that require collective European action?

## Challenge one: climate change

In my view, the priorities for the next five years fall into three broad categories. The first and in my view by far the most urgent refers to climate change. Without clear and decisive action to stop and reverse global warming, there will be horrific natural disasters, some of which are already visible.

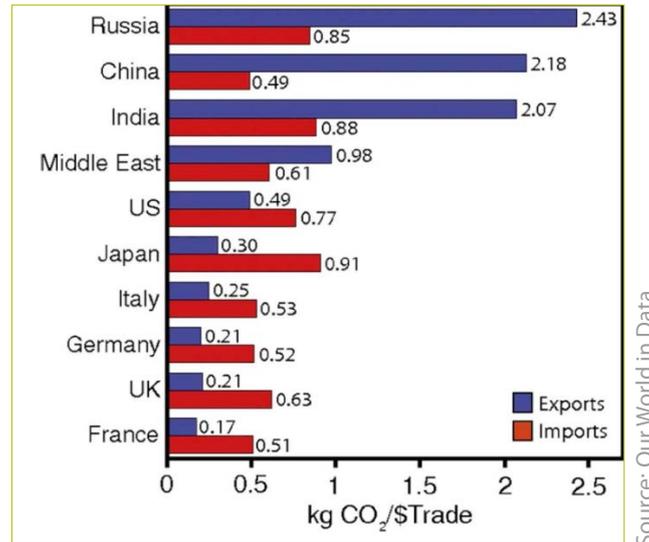
**Figure 1 - Climate change** (annual CO<sub>2</sub> emissions by world region, billion tonnes per year)



Europe, along with other countries, has managed to level off, if not slightly reduce, CO<sub>2</sub> emissions (**Figure 1**). But this is not enough. Energy transition from depleting to renewable resources needs to speed up. From research on batteries for electric vehicles to the generation of electricity, the need for innovation is crucial. It is shocking to see just how much of our electricity is still generated from coal (80% for countries such as Poland or Estonia, above 40% for Greece and Germany), the most environmentally and climate damaging of resources.

Similarly, it is not sufficient that we just 'clean up' our production. We also need to 'clean up' our consumption. **Figure 2** shows that the CO<sub>2</sub> of our imports is far bigger than that of our exports. This implies that we have not really reduced our CO<sub>2</sub> production; we have just exported it - a fact that is not ultimately helping to make a difference at global level.

**Figure 2 - Climate change** (difference between production and consumption)



From now on, everything, from investment decisions by firms to implementing monetary policy or trade agreements, will all need to be accounted for on the basis of the environmental footprint they leave behind. Importantly, we will need to adjust our way of life, from the way we eat to the way and frequency with which we travel.

But, as the 'gilets jaune' movement in France has shown, the policies pursued put the burden of adjustment disproportionately on those that are economically the weakest. This is neither socially sustainable nor indeed just. A whole new set of compensating policies will need to accompany any green action in order to preserve equality and fairness.

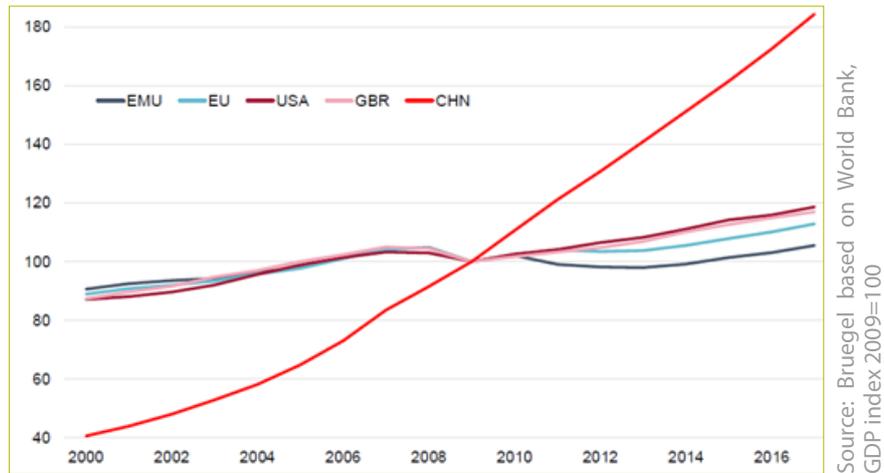


Maria Demertzis giving a presentation at the ECA in 28 June 2019

### Challenge two: the EU in a changing global system of powers

The second set of challenges falls under the category of a changing global system of powers. On the one hand we see China - a country that has grown enormously since it joined the global trading system through the World Trade Organisation (WTO), see **Figure 3**, and, while doing so, has followed the letter of the multilateral system but has not followed the spirit of the global rules of engagement. This has given it what both the USA and the EU believe is an unfair competitive advantage. The USA also worries that the underlying motivation is not just economic but may have a security dimension.

Figure 3 - GDP Growth



The USA is a lot clearer in terms of how to deal with China. In my view, the USA does not believe that the spirit of the current global trading system is fit to accommodate such a big and different country as China. So it chooses to bypass it itself. And the trade policy that the USA is currently pursuing with regard to China is part of an attempt to rebalance some of what it perceives to be the unfair advantages gained by Chinese competition practices. At the same time, it has excluded Chinese firms from providing critical communications infrastructure, such as 5G, on its territory, despite the fact that Chinese technology is the most advanced.

Europe is far behind in terms of providing answers to these questions. It is broadly in agreement with the USA when it comes to economic matters. But it does not approve of trade wars as a way of imposing discipline. How do we then level the playing field? The EU, unlike the USA, insists on preserving the multilateral system as a way of enforcing the law. In my view, this does not give sufficient consideration to the fact that, given China's size and ambitions, it will at some point want to be a rule maker, and not just a rule taker. This means that a whole new global rule book needs to be written. How will the EU ensure that we have a say, and, at least to some extent, hold the pen?

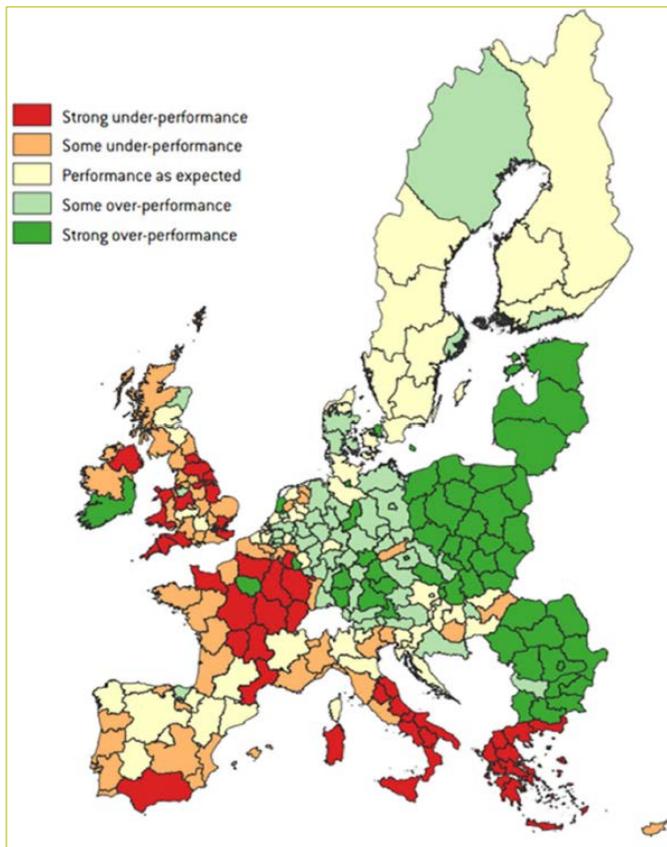
And what about security concerns? Do we allow Chinese investments in critical infrastructures such as communications but also ports, no questions asked? It is problematic that these decisions are taken at country level while the ramifications are felt across the continent. There is going to be more and more pressure to coordinate such economic decisions, perhaps in direct conflict with a country's right to make sovereign decisions. Europe is unprepared.

On the other hand, we have the USA. Europe relies to a very big extent on the USA for its security. This dependence has tied its hands when it comes to some economic decisions, as the recent USA sanctions on Iran have demonstrated. If European preferences in foreign policy are going to diverge from those of the USA more and more in the future, then it will be important to reduce our military dependence on the USA in order to regain economic autonomy. Again, Europe is unprepared.

### Challenge three: address divergences

The last set of challenges concern the way our economy works. On the brink of a new recession, some of the financial crisis wounds have been exposed. First, there is a visible increase in economic divergence between regions and countries. Social and economic cohesion has decreased and divisions are a lot more visible. **Figure 4** shows a number of regions in red. These are regions that for a period of 15 years have underperformed by comparison with what was expected of them.

**Figure 4 - 2003-2017 GDP per capita convergence, NUTS-2 regions, divided by quintile**



Source: Bruegel based on Eurostat. The colour coding indicates each region's positive or negative deviation from its expected growth rate. Quintiles depend on the residuals obtained from a regression of the growth rate of GDP per capita in current prices between 2003 and 2017 on its starting level in 2003, across EU-28 NUTS2 regions. The estimated coefficient of the starting level of GDP (demeaned to the overall average) is negative and significant at 1% level. Residuals should therefore be read as deviations from the predicted growth rate in percentage points.

If these divergences continue, the ability to unite behind the challenges of the future will be seriously hindered. At the same time, it will contribute to Euroscepticism and question the EU's added value.

Second, there is little to no appetite for centralising those parts of economic policy that are necessary to promote and sustain a monetary union. From completing the Banking Union to creating a euro area budget that will allow fiscal and monetary policy coordination - countries are unable to agree on the way forward. Similarly, there is great resistance to the idea of a safe asset at euro-area level, despite the fact that it is difficult to achieve a Capital Markets Union or even a complete Banking Union without one.

Third, populist and even nationalist forces in many countries create centrifugal forces - such as Brexit - that weaken the EU. While it is not easy to forecast what the relationship between the UK and the EU will be, it is crucial that both parties aim to maintain as close a cooperation as possible on all things, including security. Similarly, the rule of law, and more generally good governance need to be guaranteed and promoted as the only way of protecting European democracies.

### **Speak with one voice and act accordingly**

In 2024 we will be looking back at the legacy that the new set of leaders leave behind. There will be a lot on which to judge them. But perhaps the most important thing will be whether they have managed to make Europe speak with one voice, the only way it can deal effectively with the challenges that lie ahead.

# A pretence of a budget, a pretence of a union

By Jean Arthuis, former chairman of the European Parliament's Committee on Budgets



Source: European Parliament

Jean Arthuis at work in the European Parliament.

The EU budget is a key instrument for realising EU policies and programmes. Establishing this budget, in co-decision making with the Council, is an essential prerogative of the European Parliament...at least on paper. Having a wide financial background, ranging from accountancy to having held various ministerial positions in the French government, including as finance minister, Jean Arthuis has a varied and long experience with public budgets. From 2014 until 2019, he served as MEP and chaired the European Parliament's Committee on Budgets, considered to be one of the most influential EP committees. He knows all the ins and outs of the 'galaxy' of EU budgets and sees major opportunities to improve the EU budget as key instrument for EU policy-making. Below he gives his perspectives and concerns, building on some key budgetary principles and pleading for transparency and a focus on real common EU interests.

## EU budget is a unique budget...

The European Union is a unique democratic institution. During my five years as an MEP chairing the Budgets Committee, my dream and my beliefs were sorely tested – my dream of Europe, and my budgetary beliefs. I dream of a Europe that, in an age of globalisation, could take over the prerogatives of sovereignty that are now beyond the Member States, and demonstrate strategic autonomy. My budgetary convictions are based on principles and practices that aim to secure good governance and accurate accounts. The EU budget is unique in every way, given its relative size and the ways it is funded, allocated and executed. In its current form, it rather poignantly illustrates the Member States' actual commitment to joint action. In so doing, it accurately reflects reality, as the Member States contribute in the expectation that they themselves will benefit in due course.

**...also in the sense that it is rigid, half-paralysed and miniscule**

Given the atypical nature of EU budgetary work, which is modelled on the procedures used in national parliaments, both the European Parliament and the ECA are faced with a fairly thankless task. To start with, the system is half-paralysed as only expenditure is discussed. Whereas national parliaments vote on approving taxes, the European Parliament does not have this option. Own resources come solely from customs duties. At the rate free-trade agreements are signed - the EU has sole responsibility in this area - these resources are shrinking rapidly. Furthermore, the Member States keep 20% of the customs duties they collect on imports. That being the case, national budgets come to the aid of the EU budget by providing up to 90% of the total.

As a second element, the annual budget is restricted to ceilings set by the multiannual financial framework (MFF). The MFF lasts for seven years and must be adopted unanimously by the Council. Each annual budget is a fixed tranche restricted to 1% of overall EU Gross Domestic Product (GDP). In other words, the budget is in the hands of the Council, while the Parliament is at risk of becoming merely an obliging bit player. Clearly, there is no risk that MEPs are going on a spending spree with such restrictions on the budget.

The 2014-2020 financial framework, which was painfully adopted in autumn 2013, is clearly a reflection of the past rather than a forecast of future needs. The sums allocated to migration were pared back when compared with the previous MFF. As a newcomer in late 2014, when the EU was busy collecting €25 billion in unpaid sums, I fought for the Council to make available €4 billion in exceptional revenue from penalties imposed on multinationals guilty of infringing competition law. I must confess I found it hard to accept that these resources were then deducted from Member States' contributions.

**Very strictly regulated budget redistribution and allocation**

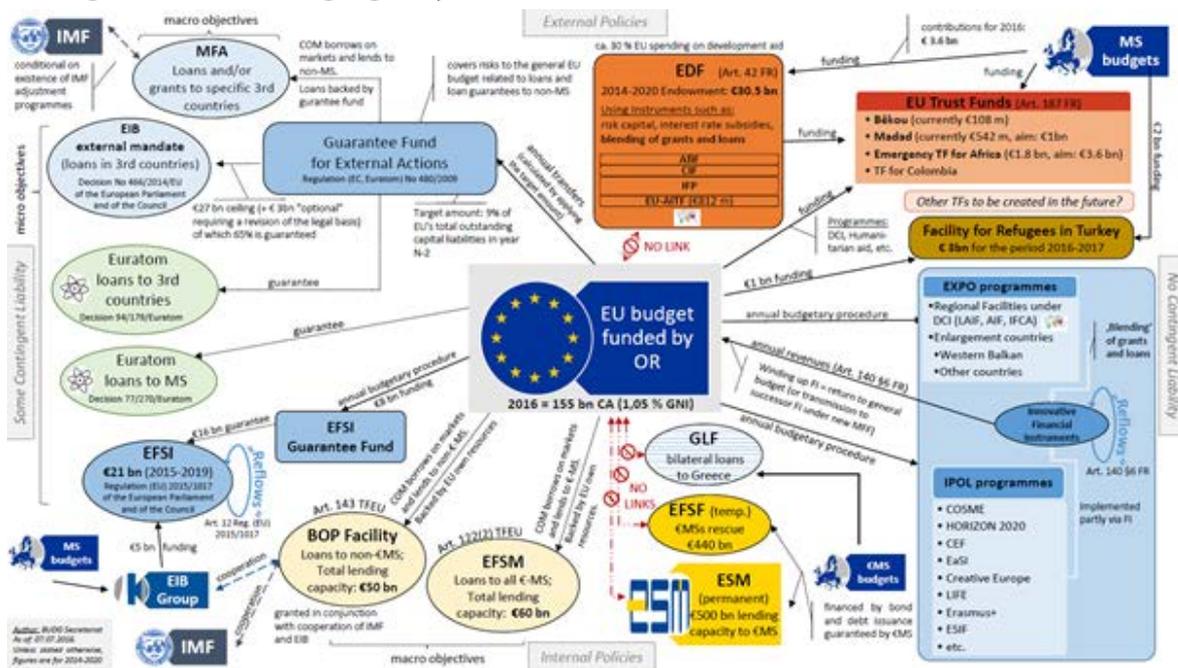
More than 70% of budget appropriations are redistributed to contributors via two channels: the common agricultural policy (CAP) and cohesion policy (ERDF and ESF). These 'sacred cows' are jealously apportioned by the Member States, which agree on the share allocated to each. Even in the event of unforeseen circumstances (e.g. a migration crisis or an upturn in investment), pre-agreed shares are untouchable. Once the operations of the institutions and bodies (the Commission, Parliament, Council, Court of Justice, Court of Auditors, Economic and Social Committee, Committee of the Regions and the more than 40 EU agencies) have been financed, less than 20% remains for supranational causes and programmes, to which the requisite adjustments are made.

The EU does not undertake actions, but merely distributes funds. In the absence of a government, it is steered by regulations and 'legal bases.' Obsessed by the risk of embezzlement of public funds, corruption and conflicts of interest, Europe cloaks itself in pernickety, complex and obscure provisions that are difficult for potential beneficiaries to understand. I had the opportunity to see for myself just how much complexity the Parliament itself creates, thus feeding an ecosystem of businesses specialised on EU subsidies, handling applications for financing in return for 'success fees.' In a culture of suspicion, the EU regulations aim to forestall any threat of embezzlement, particularly in those Member States whose financial control bodies are still inadequate. So many rules have built up that Parliament has split the workload between two different committees: the Committee on Budgets and the Committee on Budgetary Control. In my opinion, this split hampers effectiveness as the two areas are so closely linked.

## Budgetary transgressions

Endowed with this budget, and under pressure not only from heads of state and government due to unforeseen events, but also from the Commission, whose departments are always keen to extend their remit, the EU has transgressed. The Commission found itself unable to operate with the resources available to it, and so increased the number of budgetary satellites, with a dash of EU appropriations and a call for additional funding from the Member States and other contributors. I asked the secretariat of the Budgets Committee to draw up a diagram of the various financial instruments and other “trust funds” created over the years. The result was what I christened the European ‘budgetary galaxy’ (see **Figure 1**). EU financial commitments were incomprehensible to the layman and eluded parliamentary control. The principle of *budgetary unity* is thus violated.

Figure 1 - The EU budget galaxy



Source: European Parliament

Contrary to the principle that all revenue finances all expenditure, the EU allows itself to allocate certain resources by deducting them from expenditure in other areas. For example, Member State aid to help Turkey keep three million Syrian refugees on its territory is deducted from appropriations in the EU budget (€3 billion of the €6 billion actually available). Similarly, the contributions paid by Switzerland and Norway in return for access to the single market are put directly towards cohesion payments for certain countries without going through the budget. The principle of *budgetary universality* is thus ignored.

Ad hoc arrangements allow the principle of *annuality* to be circumvented, by anticipating certain expenditure. Similarly, the ‘mopping-up’ technique enables Parliament to overestimate several budget lines in order to finance property investments, absent from the draft budget, at the end of the year. The EU thus exempts itself from the requirement for *budgetary accuracy*. In budgetary terms, we really are in a different world. I regard the ECA’s silence in the face of such transgressions as quite astonishing.

These transgressions – which are often accepted by means of concessions without which it would have been impossible to achieve unanimity in the Council, particularly when the MFF is being approved – are each covered by a legal basis. They are characteristic of a unique type of governance that is made possible by institutional complicity, maintained by the chasm between the institutions and the people, and tolerated due to the lack of a genuinely European public opinion.

To be crystal clear: in essence, the EU budget is only accurate insofar as it shows that the Member States have not delegated any powers to the EU, which is merely the sum of national self-interests! The financing and distribution mechanisms have also created two opposing camps: net recipients and net contributors. This clash of interests effectively neutralises any initiative in favour of a new impetus or driving force.

### **Formal budgetary work under technocratic supervision in a media purgatory**

Having already made clear my astonishment at arbitrarily separating control and budgetary work, and the disadvantage this entails, I must confess that I often struggled to find any meaning in our work. The ritual did not change in five years: incessant discussions on marginal adjustments to annual appropriations for numerous programmes. Other than the sums allocated to Erasmus+, each of my colleagues, through the intermediary of the rapporteurs and coordinators, was supposed to express their group's expectations and priorities. In fact, in the absence of any objective bases, I came to understand that the aim of this redistribution exercise was to find soundbites for use in political speeches.

In this respect, I observed that the Parliament was very often the Commission's mouthpiece. The Commission presents its draft budget for the year ahead in May; the Council then pares it back in July with a series of clean cuts to the Commission's proposals. As soon as the Parliament returns from summer recess, it amends the version adopted by the Council and votes on its own version at the end of October. In the absence of independent expertise and conviction, most of Parliament's amendments aim to restore the Commission's initial requests.

Conciliation then begins between 28 MEPs and 28 Member State representatives. The President of the Council, representing the country that currently holds the six-month presidency, is often a diplomat in minister's guise. He is rarely accompanied by other ministers – maybe at most a few ambassadors – but often by senior civil servants from financial administrations who are delegated to the permanent representation. Clearly, the annual budget does not concern ministers, but remains the domain of the technocrats. Meanwhile, the MEPs promote their expectations and highlight their many priorities. The Commissioner responsible for the budget acts as a mediator, smoothing the way. While time-consuming, progress-free discussions are being held, time passes; then it starts to run out. At the last minute, Parliament invariably gives in for a few crumbs. The press conference is usually held without any journalists; nobody is really interested in the budget.

For five years, I hoped to derail the conciliation procedure, but the PPE-S&D duopoly prevented us from doing so. In addition, to make the Council yield we would have had to stick to one or two priorities that the public could understand. I tried in vain, thwarted by the usual policy of 'business as usual.'

### **Monitoring and measuring added value in terms of legislation**

The problem is that Europe's role is merely to distribute funds according to the rules. Most appropriations are managed jointly with the Member States. Those responsible for checks – the Parliament's CONT Committee and the ECA – are quite deprived of assessing the added value of the EU's expenditure. We had heated debates on the subject. Defenders of national sovereignty, also at the European Parliament, do not wish to submit their country's budgetary decisions for assessment, particularly if this involves value judgments by a third party, whatever its authority. If there is no possibility of evaluating the execution and relevance of expenditure, control then polarises around compliance with legislation. On a trip to Palestine, I came across a fine example of roadworks which had been carried out in full compliance with the rules. More than a kilometre of tarmac, pavements separated from neighbouring land by low walls, and streetlights, but all outside city limits. The long-awaited, much-needed works on appalling village roads could not be carried out on account of the rules!

The Financial Regulation is 500 pages long. It is the work of the two branches of the budgetary authority, the Council and the Parliament, and is meant to cover any eventuality and prevent the embezzlement of public funds and acts of corruption. It is so cumbersome as to make any kind of innovation or experimentation impossible. The ECA publishes error rates. Journalists take a rate of 2% applied to a budget of € 160 billion as meaning that € 3.2 billion have been embezzled. This is a collective misinterpretation. Failing to comply with formal rules is not necessarily tantamount to corruption. Equally, nothing proves that the checks carried out detected any actual embezzlement.

These observations make me uneasy. Ultimately, does our budgetary work actually mean anything? Does it serve a purpose? The fact is that everything lies in the hands of the Member States, which are opposed to sharing any of their powers other than competition policy, trade policy, currency (for those using the euro), and the protection of fish stocks. These powers lie solely within the EU's remit and involve no significant budgetary resources. Even so, they still pose governance problems for the euro zone.

### **A budget for common European interests**

The current budgetary pretence will remain until the Member States finally agree to transfer to the EU those sovereign powers which globalisation has clearly rendered superfluous at national level: defence and security, migration, the digital economy and artificial intelligence, climate and the environment. The European Parliament could help to identify areas where such powers could be transferred. At the same time, all or some of the appropriations which the Member States commit to these areas should be made available to the EU budget. Such approach would indeed increase the EU budget but without raising public spending in Europe. The ECA would then be in a position to assess the actual added value of the transferred appropriations. Does a euro spent on security or climate protection by the EU have more impact than a euro spent by a Member State?

Without this change, the EU's budgetary work will remain an oddity, or even a pretence, creating a sense of unease among MEPs, auditors and all other parties involved. Public and media indifference to the budget is evidence of the democratic weakness of the European project. Some of the challenges posed by sudden, unfettered globalisation at the end of the 20th century can only be effectively addressed at European level. Is now not the time for the EU to take over the sovereign responsibilities that the Member States are no longer able to assume?

The new Parliament is the perfect forum to debate this issue, both internally and in open session. By working closely with national parliaments, it can identify common European interests and recommend the requisite transfers of skills and funds. Budgetary embellishments ensure the 'bubble' remains inflated and keep the European public at a safe distance. I call upon all those involved with the budget, MEPs and auditors, to work together to end the pretence. A true, clear budget is a prerequisite for democracy, whatever the institution. Pandering to vested interests merely postpones the moment of truth. Procrastination is my nightmare scenario for the EU, but my dream of Europe remains intact nevertheless.

# Setting out the priority areas for 2019-2024 – the European Council's Strategic Agenda

By Jim Cloos, Deputy Director-General, Council of the European Union



European Council President Donald Tusk presents the Strategic Agenda, having coordinated its drafting

In this world of rapid change and complex interdependencies, the EU needs to defend and strengthen its role. The European Council has a central role in steering EU policy-making on strategic issues. A few months ago, in June 2019, it adopted its new 'Strategic Agenda 2019-2024', setting out four central themes for action in the next institutional cycle. Jim Cloos, Deputy Director-General in the General Secretariat of the Council of the European Union, explains some of the thinking behind the Strategic Agenda, how it came about, what it entails, and what its aims are.

## Charting a path for the Union

Before the summer break, EU leaders not only discussed who should head some of the main EU institutions, they also reviewed a matter of equal importance for future European policy-making at this juncture: the priorities that should guide EU action over the next few years. The new 'Strategic Agenda 2019-2024', which was adopted by the European Council on 20 June 2019, sets out four central themes for action in the next institutional cycle:

- protecting citizens and freedoms
- developing a strong economic base
- building a climate-neutral, green, fair and social Europe
- promoting European interests and values in the world.

The European Council also included an important chapter on delivering on those priorities, notably inviting each institution to revisit its working methods and reflect on the best way to fulfil its role under the Treaties.



The idea behind the Strategic Agenda is to chart a path for the Union and its institutions in the medium term. This is very much in line with the role given to the European Council by Article 15 of the Treaty on European Union, namely to 'provide the Union with the necessary impetus for its development' and to 'define the general political directions and priorities thereof (...).'

Media reports like to focus on the dramatic dynamics of emergency summits, where EU Heads of State or Government negotiate complex dossiers, sometimes throughout the night, to reach key decisions under acute time pressure. It is true that the European Council has repeatedly had to act as a crisis manager over the past few years; in crisis situations, the usual tendency is for the executive to shoulder the burden of responsibility, and the European Council is the closest thing in the EU system to a form of collective government.

This should not, however, make us forget the European Council's central role in steering policy-making on strategic issues. The Strategic Agenda is a very visible expression of this key competence. It is also not a novelty: the 2019 edition of the Strategic Agenda builds on the first one adopted in 2014 – see below how it came into being.

#### **Box 1 - Birth of the European Agenda**

History is rarely shaped by careful planning and foresight; most often, events dictate reforms and developments. This was certainly the case with the first ever Strategic Agenda, adopted in 2014. At the time, a difficult debate was going on concerning the upcoming nomination of the future Commission President. The European Parliament was lobbying strongly for Jean-Claude Juncker as a so-called 'Spitzenkandidat.' UK Prime Minister David Cameron was adamantly opposed to both the procedure and the individual candidate. One of his arguments was that Jean-Claude Juncker, once elected, would become an instrument of the European Parliament and thus tilt the Commission too much towards what the British termed a 'federal agenda'. The Commission, he said, should listen just as much to the European Council in defining its line. The President of the European Council, Herman Van Rompuy, agreed with this point at least. He and his team therefore started thinking about how to preserve the right balance. The proposal that sprang up quite naturally was to set out the European Council's ideas about the new institutional cycle. This, after all, was what had been laid down in the Treaty all along. And so the Strategic Agenda was born. Five years on, there was no doubt about whether the experience should be repeated, as it fits so naturally into the EU framework.

### **So what's new?**

The 2019 Strategic Agenda is very much driven by the new global context: the climate emergency, geopolitical shifts, the digital revolution. These far-reaching changes are too vast for any one Member State to tackle alone. Growing awareness of the need to act together, at European level, has come not only from the changing global environment but – at first sight surprisingly – also from Brexit. Indeed, the UK's intention to leave the EU has been a catalyst for unity and action. While it has absorbed considerable time and attention, it has provided a strong incentive to give a clear, united direction for the 27 in the years ahead. At an informal meeting in Bratislava in September 2016, two months after the Brexit referendum, leaders set out to demonstrate Europe's relevance with a view to addressing current and emerging challenges and delivering concrete results. This started a reflection process that would ultimately result in the new Strategic Agenda.

One year on, when meeting in Tallinn for a summit on digital issues, leaders mandated European Council President Tusk to establish a concrete work programme that would structure this reflection process in the European Council. The 'Leaders Agenda', presented shortly afterwards, set out both a method and a calendar: President Tusk proposed a series of dedicated debates on strategic matters from October 2017 to June 2019, some as part of informal gatherings outside Brussels. These reflections would subsequently be translated into action-orientated text at a future European Council meeting. These sessions gave Heads of State or Government the opportunity to freely discuss among themselves issues ranging from the future of Europe's Single Market policy and taxation to priorities in education, innovation and the digital economy.

### **Ambition requires strategic thinking**

Europe's renewed ambition to cultivate its own response to world developments and help shape a shifting global landscape requires long-term, strategic thinking. It goes hand in hand with the growing role of foresight in EU policy-making, evidenced among other things by the appointment of a dedicated Vice-President for Inter-institutional Relations and Foresight in the new European Commission. Over the years, collaboration among EU institutions has developed, including through the informal ESPAS (European Strategy and Policy Analysis System), which brings together officials from the various institutions to monitor global trends and offer strategic foresight to the EU's decision-makers.

The analysis of these global trends, together with the reflection process initiated in Bratislava, informed the preparations of the Strategic Agenda. The informal meeting of Heads of State or Government in Sibiu in May 2019 offered leaders the opportunity to identify the main areas for action and agree on the overall approach, with a particular focus on Europe's place in the world. Preparatory work had revealed how interconnected the different challenges were, highlighting the need for an integrated policy response that would link the different dimensions (external, economic, technological and green). Following the Sibiu summit, delegations produced and discussed a text, which was finally adopted by the leaders themselves in June.

### **Engaging partners instead of imposing a blueprint**

The outcome is not a detailed blueprint. Instead, the Strategic Agenda aims to provide a general direction for action over the coming years and set the right level of ambition. Rather than an end in itself, the Strategic Agenda marks the beginning of a process. The engagement of stakeholders, citizens, civil society and social partners, and regional and local actors, should complement top-down guidance. In the face of complex, crosscutting challenges, we may need to rethink some of our organisational structures and governance to reach shared objectives. The EU institutions are invited to reflect on their working methods and on how to best fulfil their role in that context. Reflection has already begun in the Council under the Finnish Presidency.

Next, leaders will discuss the follow-up to the Strategic Agenda at the October European Council meeting. This will be the opportunity to consider how the leaders' guidance can be reflected in the priorities and work programmes of the EU institutions and in the Union's long-term budget. The institutions and Member States will work side by side, and the European Council will keep implementation under close review.



Source: © EU/Council

President Tusk meeting Belgian Prime Minister Charles Michel, the new President of the European Council from 1 December 2019 onwards

# An EU of values, including gender equality

Interview with Alexander De Croo, Deputy Prime Minister and Minister of Finance and Development Cooperation

By Gaston Moonen



Alexander De Croo

On 9 and 10 October 2019 Alexander De Croo, Deputy Prime Minister and Minister of Finance and Development Cooperation for Belgium, visited Luxembourg. He combined the meeting he had with his fellow ministers of finance in the Eurogroup with a presentation of the book he published earlier this year entitled 'The Age of Women – why feminism also liberates men' - presented during a meeting at the European Stability Mechanism. He also visited the ECA, where he met with President Klaus-Heiner Lehne and ECA Member Annemie Turtelboom. Alexander De Croo links the topic of gender equality to some of the big political, economic and social challenges the Union faces today.

## Men can be feminists

Alexander De Croo is clearly pleased to see that more and more men - including the interviewer - are showing an interest in his recent book, 'The Age of Women – why feminism also liberates men'. 'I am always happy to see that the book is being bought by men. Sometimes the buyer then asks me, "Please write something in it for my wife." But that is actually not the idea, because I believe that it is men, first and foremost, who should read it. Moving the topic away from women a bit and spreading it more among men was an important reason for me to write the book.'

The Deputy Prime Minister explains that feminism is not a neutral word and that, actually, some people, for different reasons, really resent it. 'Sometimes women ask me: "How can you be a feminist if you are a man?" I find this a bit of a strange argument. I can fight racism as a white person, I can act against poverty without being poor myself, etc.' He points out that, apparently, with feminism it is much less neutral, although it is

precisely this topic that needs more men. 'What I hear a lot today is "I am not against gender equality." That is a start. But what you really need is men who say: "I am going to be an active champion on this. I want to make this happen."

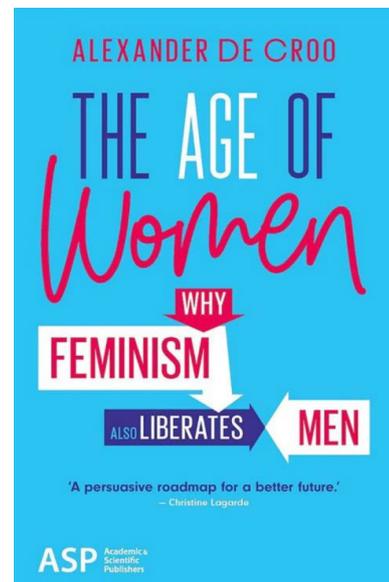
“ ... you really need is men who say: "I am going to champion this, I want to make this happen."

For Alexander De Croo it is clear that it is the right thing to do. But there is another important driver: 'Because it makes economic sense! What we are doing today is a gigantic waste of resources. As a society, you cannot have the goal of having the best educated housewives of the world. But this is what we actually do now.' He quotes the figures: 'If you look at education, there are more women graduating than men and their academic scores are generally better.' Then he looks more closely: 'While for most careers there are actually equal numbers of men and women on entry, ten years down the road, only men survive. What happened?' In his view, in any domain of society, looking at the numbers, we would say this was poor utilisation of resources. 'We would really do something about this. But on gender equality, for many decades we have said: Okay, that's how it is.'

### Time to act...with the aid of quotas

He points out that, often, gender policy remains highly anecdotal. 'But we need to act. Until a few years ago, I was vigorously against quotas. And actually many women were against them. Same for my wife. She told me: "I have read your book but on the quotas, I completely disagree!" But you see that minds are changing.' Why did Alexander De Croo change his mind in favour of them? 'Quotas used to mean: you have an organisation, mostly men. Oh, gender equality...let's take a woman from three levels below, we pull her up and we have solved it. Obviously you have not solved anything and it is incredibly stigmatising.'

He makes it clear that, if you do not put the quota on the table, you do not make it measurable. 'And then we are never going to get there. I have seen this so many times: a shortlist of candidates ... with five men! And if it is a list of 10, they add one woman.' Alexander De Croo believes that today, in any domain of society, you have women who have the right abilities, the right experience, and who have the right ambition. 'They are there, but we tend to completely overlook them. And men have a habit of feeling more comfortable with other men around.'



He identifies several reasons why one has to try harder. 'Men and women handle opportunity in a very different way. Men will apply for a job, even if they hardly meet half of the criteria, and, in general, women are a lot more perfectionist about it and might withdraw even if they are a perfect match.' He underlines that a systematic approach is needed to break that. He also thinks that this can be done while taking the best candidate. 'That is often the argument against quotas. But is the best candidate always a man? It is not! But if you look at the choices we make, you could come to the conclusion that, since we always take the best candidate, the best candidate is always a man.' He adds 'So, for me, the value of a quota is that it enables me to say: "You go back and try harder to find the women - who do exist - and put them on this shortlist."

Elaborating further on this, he refers to a definition he really likes, which is: we will have gender equality the moment we have as many *incompetent* women in leadership as today we have *incompetent* men in leadership. 'That is gender equality! We actually look and judge in a very different way: if a man is failing we

“ ... we will have gender equality the moment we have as many incompetent women in leadership as today we have incompetent men in leadership."

will say “Too bad he failed.” If we promoted a woman and she is failing, the reaction is often: “Didn’t we just know it, a woman!” We set the bar much higher for those people who do not fit our own mould, be it women – or others.’ He treads carefully here. ‘We should not mix gender with minority policies. Mainly because women are simply not a minority, quite the opposite. And if you equate gender policy with minority policy you are not doing either any favours.’

### Bringing gender policy into the economic realm

For Alexander De Croo there is another reason, an economic one, for introducing quotas. ‘We should know that we judge in a very male way. And the consequence is that more men succeed. Perhaps we should be questioning the way we judge.’ For him there is no doubt that in the fast-changing and turbulent world of today the most successful teams are mixed teams. ‘As I explain in my book, there is no magic solution, not just one thing you should do. There are many different things you can do. But let’s finally get moving!’

With a background in economics and experience in, for example, development cooperation, this Belgian politician could have selected many other pressing issues to write about, but it turned out to be gender equality. He explains that it is a topic close to his heart, also because of his mother, an active feminist and family lawyer who shared many dreadful stories of women in trouble. ‘But when I went to university, I thought “We are there. We have made it on the big feminist topics - through legislation, for example.”’ He refers to a recent study by the World Bank which says otherwise. ‘There are six countries around the world where the laws make absolutely no distinction between men and women. Belgium is one of them. But there are more than 190 countries in the world, so there is still a long way to go!’

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... There are six countries around the world where the laws make absolutely no distinction between men and women. Belgium is one of them.

Initially, Alexander De Croo thought it would be a matter of time before gender differences were resolved. ‘But it is not, it is a matter of policy.’ His experiences as Minister of Development Cooperation opened his eyes. ‘For example, in Sub-Saharan Africa one thing became really essential in our development policy. It is called SRHR – Sexual Reproductive Health and Rights – basically, family planning.’ He explains that if you give a twelve-year-old girl access to family planning, it makes a difference between becoming pregnant at that age and having seven kids, or having an education and standing on her own two feet. And this is an issue that everyone understands. ‘Because everybody can relate to it. If, between the ages of 16 and 25, you had not had access to family planning, would you be living the life you are living today? Obviously not, and everybody understands that!’

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If you, between the ages of 16 and 25, you had not had access to family planning, would you be living the life you are living today?

But taking this topic to policy level for action, getting it onto the agendas of colleagues, even those not working in development cooperation, has turned out to be difficult. ‘In my Council meetings as Development Minister, it is a topic on the agenda, but not for all 28 Member States. Some countries will just pull back. And I think we have stalled on this topic in the EU.’ He points out that the dialogue with like-minded countries is easy. ‘But the real discussion is with Saudi Arabia. And, within the EU, perhaps with more conservative governments, such as those in Hungary or Poland.

Even at the finance ministers’ meetings, the topic may land on the table, but indirectly. ‘For example, a link has now been established between finance and climate. For finance ministers this is relatively new. And linking it to the Sustainable Development Goals – the SDGs – enables you to add more substance.’ He adds that money drives policy and since the finance ministers are responsible for certain financial institutions which are financing a lot – the European Investment Bank, the European Bank for Reconstruction and Development, national development financial institutions

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... a link has now been established between finance and climate. For finance ministers this is relatively new.

– these ministers can push for certain topics. ‘Today these institutions use so-called ESG criteria – Environmental, Social and Government. We should add a second G, the gender dimension, as well. But it is clearly not yet a topic to be discussed in the Euro group meetings.’

The Deputy Prime Minister finds that gender is more of a topic now in national politics. ‘Look at Justin Trudeau, when he launched his government in 2015 with a government at parity. When asked why, the new Prime Minister said: “Well, because it is 2015.” And Emmanuel Macron did it the same way, as did Ursula von der Leyen.’ For Alexander De Croo, it is clear that things are moving. ‘But today you also have more pushback against it.’

One of the criticisms he received regarding his book is his opinion about part-time work. ‘I am rather critical about it, because I see what the consequences are. Because part-time work almost always ends up being done by women, leading to part-time careers, part-time salaries, part-time retirement and part-time opportunities.’ He concludes that women are pushed in that direction too often. ‘Many people do not agree with me on this. I think the real question in the end is: are you having a fair discussion on this? Or is it a discussion where the men think that their self-esteem is linked to being the income-earner in the family, and to many questions related to that, including being the last one to leave the office building? It is a mental thing, and also a cultural issue.’

Alexander De Croo goes back to his roots. ‘The topic of gender equality is about life. I am an economist and I believe in economic growth. But economic growth expressed merely as a number does not make me happy. What makes me happy is more people having access to a good life. If we want to have a good life, we need to create more prosperity. But we are not creating more prosperity by squeezing it out of a small group. We can make the pie bigger if more people participate in a more balanced way – so more quality of life.’ He observes that, on this aspect, Scandinavian countries do it better than most EU Member States.

“... economic growth. But economic growth as a number does not make me happy. What makes me happy is that more people have access to a good life.”

Another issue he touches upon is the importance of role models, having women become leaders, also in financial institutions, for example Kristalina Georgieva at the IMF and Christine Lagarde at the ECB. ‘Both women will tell you that they were against a quota, but that now they are in favour of it. The financial world is a good test case because a big part of what the financial sector is doing is dealing with risk, so managing risks. And men and women deal with risk in a very different way. As Christine Lagarde said: “If it had been the Lehman Sisters instead of the Lehman Brothers, we would be in a different world.” And I kind of agree with that.’ He considers that having these two women leading key financial institutions sets a strong example. ‘You now have financial institutions making a point of it, making an effort to diversify their leadership.’ He recalls a conversation he had with a CEO who was doing this. ‘He said that he was doing this because it was the right thing. But also because it made economic sense: “I just have better results.”’

“... men and women deal with risk in a very different way. [...] If it had been the Lehman Sisters instead of the Lehman Brothers, we would be in a different world.”

### Taking the lead...starting with a clear EU vision

When it comes to what the Deputy Prime Minister expects the Commission to do for the upcoming mandate on the issue of gender equality, he is quite clear. ‘First of all, what we need is a Commission that leads and puts forward a certain vision. If you work in an EU context, you will have to make compromises. And for a Member State it is easy to explain a compromise at home if they can say, “This is the vision, the reason we do it.”’ He explains that as a national politician he can swallow a compromise if he can see the big picture, where one wants to go. ‘What we have seen over the last few years is that more and more Member States are defending their so-called national interests; but this often means that the European vision is being lost. That’s why I have expectations of a Commission that has gender parity and a female president for the first time, which sends

“... what we need is a Commission that leads and puts forward a certain vision.”

a message: gender equality is an important issue. And I hope that Ursula von der Leyen and her team manage to put forward a positive EU vision, clear objectives that we want to attain and a forward-looking and positive dream. Then, I believe, many things that we have been struggling with in the last few years may become a bit easier to follow up.'

A second point he underlines is that the EU is not only an economic and security project but also a project of values, of human and democratic values. 'And when the Commission is critical about certain things that are happening in the legal systems of certain countries, I think that it is right to be, and we should continue taking that line. One of the Commissioners will be responsible for Justice.' Alexander de Croo believes that the EU should be clear on laws that lead to discrimination. 'But we should also do it in a less stigmatising way. For example, too often we speak about the new and the older EU Member States. We should stop that - we are all equal, we are 15 years on!'

As a third issue, he refers to certain topics that are high on the political agenda. 'Take, for example, climate, which is a good thing. And the leap of imagination from climate to the SDGs is actually quite an easy one. And within the SDGs, gender equality plays an important role. And there are really some high-quality people in the European Commission of whom I have high expectations and who, I believe - for example, Executive Vice-President-elect Frans Timmermans - have an open mind on this, and are pretty vocal.' However, he questions whether you need a Commissioner for gender equality. 'I am not so sure. In the end this is a topic for everyone.'

Alexander De Croo hopes that the European Commission will also play a bigger role in the political debate. 'The Commission needs to bring certain policies down to a human level, a level that everyone understands, and sometimes take decisions that may be a bit controversial, but at least become part of the political debate. And avoid the scapegoating that we often see. When anything goes well, we - the national ministers - say this is thanks to us, while for everything that goes wrong, we say: "That's the European system."' He explains that one of the effects of the UK's efforts to leave the EU has made the 27 others more aligned. 'We are sometimes highly vocal about what goes wrong in the EU. But all 27, we will defend the single market, freedom of movement, etc. The discussions with and about the UK have really shown how dear all this is to us. There are strong foundations to this European project!'

### **The ECA and achieving gender equality**

As part of the executive branch of government, Alexander De Croo also has some expectations about what the ECA can contribute regarding gender equality. 'If we, within the EU project, say that gender is an important dimension, then I expect the ECA to see what has to be done to move down that road.' Another aspect he raises relates to the ECA's internal functioning. 'President Klaus-Heiner Lehne explained to me that the ECA also still has a way to go to reach full gender equality. In my view, being an independent EU institution, there should be no reason why you cannot draft a plan and say: this is where we want to be in ten years from now. All the more so, because you should be leading by example. And, for the sake of having more legitimacy vis-à-vis your auditee, I think it would make the ECA much stronger if you were to give the right example.'

### **Confidence in progress**

The Deputy Prime Minister realises that political trends in a number of countries are making the objective of gender equality more difficult to realise. 'We have always thought that history is going in a straight line. But sometimes it takes a turn and you go in a different direction. But I stand for what I said in my book: that true freedom of choice does not exist if women cannot be equal to men. The questions we have now are: are we going to defend what we have and are we ready to continue progressing it?'

“*... true freedom of choice does not exist if women cannot be equal to men.*”

He explains that speaking about norms and values can also take a different direction. 'In my view a dangerous one, because the next step is family values' - which he thinks can also be used to defend the traditional pattern: men go to work and women back to the

kitchen. 'And LGBT back in the closet! That is also family values; it can be used by populists all the time.'

Alexander De Croo puts the issue in a broader perspective, explaining that family values are rooted in a form of nostalgia which seems comforting for people who are looking to the future and may actually feel a bit afraid of what they believe is coming. 'That is what is happening in Europe: we are losing some of our confidence in progress. This is worrying because progress has always meant - up to now - that we believe that the lives of our children will be better than the lives that we have had. This belief in progress was a key element in this - it kept us going. And that is gone for a number of reasons. Then you have two solutions: either you make people stronger or you tell them: the future is not what you should be looking at, you need to look at history.' Referring to Hans Rosling – a Swedish scientist, he concludes: 'Research shows that on many counts the situation of mankind in the past was worse than today; in reality we have made dramatic progress. But we have become blind to these achievements. History should motivate us, not worry us. But apparently it does, for many people.'

“*That is what is happening in Europe: we are losing some of our confidence in progress.*”

He explains that feminism used to be seen as something many men saw as very threatening. 'The feminist story was basically saying: men are bad, men are evil and we want your job. Not nice to hear. But if you use the economic argument and explain that a better balance between men and women probably means that men will also have more balanced lives, that is much more convincing.' He underlines that both women and men are stereotyped in a rather horrible way. 'If you say: I am a man but I am fine with working part-time because I want my wife to have other opportunities to develop her career, you will be judged in a very harsh way. As are women in leading positions sometimes.' He gives the example of his colleague who is responsible for the budget in Belgium, Sophie Wilmès. 'When she became minister the first question she was asked was: "You have three kids, how are you going to do this?" I have two children and no-one ever asked me that question.' He calls this the conscious and unconscious biases. 'We all have them, including myself.'

### **Gender equality – and how SDGs can help to make it measurable**

Gender equality is one of the 17 SDGs (SDG 5) to be achieved by 2030. When discussing how realistic this date is, Alexander De Croo refers to the first evaluation of the SDGs, which was discussed during the meeting of the UN General Assembly in September 2019. 'The diagnosis was that many things were happening but we were not on track, we needed to change up a gear. And I agree with that. On the gender issue - and that is what I wanted to do for my country, Belgium - societies are makeable. Scandinavian countries did not become what they are just by complacency. They became what they are because they saw benefits and everyone played his and her role.'

He finds it all the more important to make gender equality measurable. 'We need to have a metric. The one I use is the pay gap. The pay gap takes into account that men and women end up in different industries, women in industries that are paying less.' He gives several explanations for the differences that arise: men and women are not working with the same intensity - more part time work for women than for men; women do not end up in leadership or high paying positions as often. 'So if this pay gap is very small in any given country, then it is a reflection of the fact that many of these factors have been dealt with. And government can play a role in that. Private organisations have a large role to play. And, as I point out in my book, men have a role to play. We will get there the moment men are convinced that it is good for their teams, good for themselves, and good for their daughters, and even their sons.' He concludes: 'So if you want to get something changed, you need a clear objective. And preferably a measurable one.' Then, with a laugh: 'No doubt an audit institution such as the ECA will agree with that!'

# Transparency in the work of the EU Council: A Presidency perspective

By Kaisa Männistö, Permanent Representation of Finland to the European Union

The European Council has set out four strategic themes for action in the 2019-2024 institutional cycle (see also p. 16 of this Journal). The Presidency of the Council of the EU rotates every six months and is currently held by Finland. This means that Finland is not only chairing the Council meetings but also organising many activities to further develop and implement EU policies. How will the Finnish Presidency put flesh onto the bone and give concrete form to these long-term perspectives? Kaisa Männistö, Counsellor in Legal and Institutional Affairs in the Permanent Representation of Finland to the European Union, zooms in on a key aspect for the Finnish Presidency: transparency. She explains which actions the Finnish Presidency wants to undertake to promote transparency and how it ties in with the rule of law and with protecting citizens and their freedoms.



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## Transparency and EU decision making

The transparency principle has taken great strides in the Council of the European Union over the past two decades, having been enshrined in the Treaty on the Functioning of the European Union (TFEU) in 2009 (see Article 15), then implemented through the Council's Rules of Procedure and gradually honed in practice over the years. Transparency has been boosted by technological advances in livestreaming technology - allowing discussions to be broadcast to citizens in real time and by social media permitting the instantaneous transmission and retransmission of key information.

But digital technology has also spawned new challenges: as the quantity and sources of online information have multiplied, checking the veracity of that information has become harder or even impossible. The importance of transparency continues to grow in the new political environment, as today's hyper-connected citizens demand accountability, trustworthy facts and a greater say in decisions that concern them.

Calls by official actors for greater transparency in the EU law-making process have intensified in recent years. The issue has been highlighted by the European Ombudsman, the European Parliament and COSAC (the Conference of Parliamentary Committees for Union Affairs of the Parliaments of the European Union). In addition, the Court of Justice of the European Union (CJEU) has given judgments demanding greater legislative transparency and underscoring its importance as a way of ensuring democracy and democratic legitimacy in the EU law-making process. In their [2016 Interinstitutional Agreement](#), the European Parliament, the Council and the Commission committed themselves to increasing the transparency of legislative trilogues in particular.

The Council's efforts to ensure transparency in the context of the Brexit negotiations were recently acknowledged by the European Ombudsman when she formally closed the Brexit-related transparency initiative that she had opened with the Commission and the Council, noting that 'the Union has overall pursued a proactive approach anticipating citizens' and businesses' legitimate needs for information on the Brexit negotiations.'<sup>1</sup>

<sup>1</sup> Council document XT 21035/19. Letter from Mrs E. O'Reilly, European Ombudsman, received on 6 May 2019 (SI/3/2017/KR).

The issue of transparency was also on the minds of the EU heads of state and government in June 2019 when they signed off on their roadmap for the next five years. Warning that ‘the world has become increasingly unsettled, complex and subject to rapid change,’ the [Strategic Agenda](#) adopted by the European Council for 2019-2024, pledges that the EU institutions will continue to respect the principles of democracy, rule of law and transparency. It also states that each institution should revisit its working methods and reflect on the best way to fulfil its role under the Treaties.

### **Transparency in the work of the Council under the Finnish Presidency**

A longstanding champion of legislative and administrative transparency, Finland is once again pushing for greater openness as it holds the Presidency of the Council of the EU in the second half of 2019. The Finnish Presidency has stressed that transparency and open communication play a significant role in bringing the EU closer to its citizens and in making it more readily understandable--and that transparency and openness increase trust in the EU, increase its legitimacy and help to ensure accountability.

Exercising its prerogatives as Council President, Finland has introduced a set of specific practices<sup>2</sup> for improving legislative transparency. This means, for example, that progress reports to Coreper (Committee of the Permanent Representatives of the Governments of the Member States to the EU - the Council’s main preparatory body) on legislative files will, as a general rule, be made public during Finland’s six-month term. The Finnish Presidency will also propose to publish all initial mandates to start trilogues once they have been adopted by Coreper. Under the Rules of Procedure of the Council, currently, only mandates adopted at the ministerial level are automatically made public. The experience gained during the Finnish Presidency can inform future discussions on the Council’s long-term approach.

In the current unsettled global political landscape, transparency has also gained new relevance and urgency as a valuable strategy for combating disinformation. Allowing direct and early universal access to documents and debates is not only an effective way of informing citizens but also a way of thwarting efforts by potentially ill-intentioned outside actors to seize control of the narrative. Transparency offers a possible remedy against populism as well. When citizens can see how decisions are actually taken in the EU, they are less likely to be duped by populist myths about the sinister machinations of ‘Brussels bureaucrats.’ Untruths are best countered by facts.

In line with the openness expected from national civil servants in their day-to-day work, the Finnish government has mobilized the entire administration from ministers to public officials in the communication effort related to the EU Presidency. Furthermore, to ensure transparency in lobbying, the Finnish Presidency will publish information on all meetings between ministers and interest groups. The same goes for Finland’s Permanent Representative and her deputy in the Permanent Representation in Brussels.

Finland has pushed for greater transparency throughout its EU membership, including its two previous presidencies in 1999 and 2006. This attachment to the transparency agenda is rooted in positive domestic experience. Finland’s own national approach continues to evolve. In 2013, the country joined the Open Government Partnership (OGP). As part of this initiative, Finland’s Ministry of Finance regularly produces [Action Plans for Open Government](#). The latest plan, published in 2019, pledges to develop an open government strategy, a transparency register and guidelines on the ethical use of artificial intelligence. Finland has pursued open government with two main goals in mind: strengthening trust between actors in society and promoting equal opportunities for participation in society’s operations and their development.

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2 Openness and Transparency: Finland’s Presidency of the Council of the EU: 11999/19.

### Strategic debates on the future of the EU: improving accountability to European citizens

The institutional hiatus in 2019 offers a valuable opportunity to take stock and plan for the future. From a transparency perspective, it seems logical that when ministers hold broad strategic discussions, charting the Union's course over the next legislative cycle, citizens should be allowed to hear what is being said. Under the Council's Rules of Procedure, legislative debates by ministerial-level Council meeting are always made public, whereas the live-streaming of non-legislative debates usually requires a decision by qualified majority. The Finnish Presidency decided that it would actively avail itself of this possibility, especially in the context of forward-looking debates.

The Council began the process of incorporating the European Council's Strategic Agenda 2019-2024 into its work by holding a series of future-oriented discussions on different themes; at the initiative of the Finnish Presidency, a number of these debates have been conducted in public session. For example, on 8 July 2019, the ministers responsible for Employment and Social Policy debated 'the Economy of Wellbeing', a far-reaching horizontal initiative intended to inform EU policy in the coming years. The General Affairs Council has discussed the 'Implementation of the Strategic Agenda 2019-2024' on 18 July 2019 and 'Enhancing respect for the Rule of Law' on 16 September. The last-mentioned debate had particular resonance in the current political climate.



On Monday 16 September 2019, the General Affairs Council held a policy debate on enhancing respect for the rule of law in the EU. The debate took place in public session in Brussels

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## Transparency and the Rule of Law

Strengthening ‘common values and the rule of law’ is the very first priority mentioned in [Finland’s Presidency Programme](#). It is not just a pet topic unilaterally chosen by Finland but the expression of a common determination to safeguard the basic principles enshrined in the Treaties. The crucial role of the rule of law in guaranteeing the Union’s values is also recognised in the European Council’s Strategic Agenda and enjoys strong support among EU citizens. According to a Eurobarometer survey conducted in April 2019, the importance of the key principles of the rule of law were recognised by over 80% of EU citizens and 89% supported the need for the rule of law to be respected throughout the EU.

But the very notion of the rule of law also needs to be better known if it is to be effectively used and properly defended. As the Commission says in its recent Communication on ‘Strengthening the rule of law within the Union’,<sup>3</sup> a lack of information and limited general public knowledge about challenges to the rule of law provide a breeding ground for negative developments. Without transparency, the media, NGOs and interested citizens are unable to hold decision-makers to account. In other words, in a healthy democratic system, transparency is needed to uphold the rule of law.

It was with such concerns in mind that the Finnish Presidency decided to shine the light of transparency onto the concept of the rule of law itself, by proposing that the policy debate on enhancing respect for the rule of law that took place in the General Affairs Council on 16 September be conducted in public session--the first time that this subject had been broached by EU ministers on camera. To be sure, certain divisions between the Member States were reported in the press. But an open debate always moves things forward. As the Finnish Presidency has repeatedly stressed, at the end of the day, the rule of law is something that unites the EU instead of dividing it.

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3 COM(2019) 343 final.

# A Europe that strives for more: the European Commission Class of 2024

By Gaston Moonen and Clare O'Donohoe, Directorate of the Presidency



Source: European Parliament

European Commission President-elect Ursula von der Leyen speaking for the European Parliament.

In the Union's institutional architecture, the European Commission's role is not only that of upholding the EU treaties. It is also the executive with many different prerogatives, ranging from proposing legislation, implementing decisions and managing the day-to-day business of the Union. No surprise that the composition of the new Commission, starting with its President-elect Ursula von der Leyen, and even more so her policy guidelines for the 2019-2024 mandate, received a lot of attention when presented to the European Parliament on 16 July 2019, following her confirmation. Gaston Moonen and Clare O'Donohoe, a trainee in the ECA, give an overview of the main priorities presented by the new President-elect, covering the foreseen modus operandi of the new Commission and key issues in which the proposals appear to differ with its predecessor.

## A Commission with a geopolitical outlook

At a time that is characterised by rising geopolitical tensions, (the fear of) a stagnating economy and increased political uncertainty, the political priorities, the structural organisation and the clout both in the EU and outside it of the European Commission are of increasing importance. The Commission's priorities offer direct insight into the manner in which it will address the most pertinent issues facing the European Union over a five-year period. Indeed, President-elect Ursula von der Leyen described her goal of ensuring that the new Commission will be 'well-balanced, agile and modern' in order to tackle such pertinent issues. As is often the case with new political set-ups and political transitions, many spectators are seeking to examine the extent to which there is continuity between the priorities of the Juncker Commission and the proposed Von der Leyen Commission. While there are notable similarities, in particular with regard to the areas of finance, taxation, trade, and the digital single market, the structure and key priorities of the Von der Leyen Commission (**Figure 1**) represent a substantial divergence from that of its predecessor (**Figure 2**).

**Figure 1 – Priorities of the Von der Leyen Commission**



**Figure 2 – Priorities of the Juncker Commission**



Described as a 'geopolitical' Commission, with the ability to 'better align the internal and external aspects of our work', Ursula von der Leyen outlined her ultimate goal of strengthening the Union's global position. This overarching aim is guided by the slogan *A Europe that strives for more* and preliminary observations suggest that the Von der Leyen Commission plans to make significant strides in several key policy areas. The structural changes, combined with a renewed focus on climate change, European defence, and the strengthening of borders in order to 'allay the legitimate concerns of many' highlights the Union's desire to maintain its position as a key global actor, while also instilling trust among those of the electorate who disproportionately felt the effects of the refugee crisis. Underlining the existential challenges in some of the areas, notably with regards to climate change, the first signs are that this Commission intends to combine a sense of urgency of today with ambitions for tomorrow.

### Structure more geared towards priorities

One aspect of the new Commission that marks a notable departure from its predecessor is the proposed new organisational structure. The five Vice-President positions created by President Juncker remain, but President-elect Von der Leyen has increased the total of Vice-President positions to eight. Each Vice-President will be responsible for overseeing the implementation of Von der Leyen's key political priorities, as outlined in her political guidelines.

In addition to the Vice-Presidents, Ursula von der Leyen seeks to create three Executive Vice-Presidencies with the aim of constructing a more political Commission. The positions will help to ensure that the largest political parties in the Commission are represented in key leadership oversight roles, while also maintaining responsibility for their respective Directorates-General. These three super Commissioners face a heavy task. They have to expedite the shift towards an EU that is both green and digital, while maintaining prosperity and a social face. Clearly, these three Commissioners - but also others - will have overlapping portfolios in order to facilitate more teamwork and coherence. However, this overlap risks causing problems related to coordination and potentially stretched resources.

Margrethe Vestager is expected to remain as Commissioner for Competition, while coordinating work on *Europe Fit for the Digital Age* – a decision that will presumably be a cause of concern in the U.S. in light of her previous work at reining in tech companies

for violations of anti-trust policies. Frans Timmermans has been provisionally selected to act as Commissioner for Climate Action Policy, while helping to formulate and negotiate the proposed *European Green Deal*, and Valdis Dombrovskis has been provisionally designated the role of Commissioner for Financial Services, while also working on Von der Leyen's plan to develop *An Economy that works for People*. A further point of interest in Von der Leyen's proposed Commission is the attempt to achieve gender parity. If approved in full, it will be the most gender-diverse Commission in history of the Union and led by the first female President.

### **Climate: A European Green Deal**

A purported key priority of the new Commission is the proposal of a 'European Green Deal' within the first 100 days and the inclusion of a clause to make the EU's commitment of European climate-neutrality by 2050 legally binding – a decisive step-up from the climate goals of the Juncker Commission. Additional measures include the proposal to extend the Emissions Trading System to cover the maritime sector, reduce allowances given to airlines, and developing a strategy for green financing which would see part of the European Investment bank converted into Europe's climate bank in order to fund climate and clean-energy projects.

Should such a Green Deal be implemented in full, there exists the potential to have a profoundly positive impact on the global climate while simultaneously acting as a world leader in this policy domain. The issue, however, is gaining the support of all the Member States – including those who are either less concerned with the gravity of the situation, or those who fear the economic repercussions of such climate policies and their effect on the EU's competitive edge compared with other global economic blocs. Executive Vice-President-elect Frans Timmermans has committed himself to present proposals in his first one hundred days on how to realise EU climate neutrality by 2050, including proposals on how the EU can reduce greenhouse emissions by at least 50% by 2030. He underlined the need to address a 'Fair Transition' by creating a Transition Fund aimed to facilitate and share the burden for lower income EU citizens on their path to more sustainable energy consumption.

### **Defence: A New Priority**

A rather new component compared to the Juncker Commission is the prioritisation of defence. Von der Leyen's aim is to embolden European forces in a world that is increasingly characterised by geopolitical instabilities. For the first time in the history of the Union, a specific department has been established to oversee the development of the defence industry and space policy – a move which aligns with Von der Leyen's declaration that Europe should be 'more assertive' in responding to the challenging global environment of the 21<sup>st</sup> century. This focus on defence is of particular interest in light of the ECA's recent [review](#) on European Defence (see **Box 1**).

#### **Box 1 - ECA's Review 9/2019 European Defence**

Recent international developments, coupled with economic and industrial considerations, have given European defence cooperation new momentum. Several defence-related initiatives and mechanisms have been set up in recent years, among which the Permanent Structured Cooperation (PESCO), the Coordinated Annual Review of Defence (CARD) and the European Defence Fund. In addition, the European Commission proposed last year a significant increase in the EU budget for defence and external security: €22.5 billion for 2021-2027, compared to €2.8 billion for the 2014-2020 period.

European defence policy is very much dependent on Member States' willingness to cooperate in this area – predominantly because this policy domain is traditionally viewed as being central to the national sovereignty of a state. Governments in Europe are typically hesitant to integrate defence policies at the supranational level in order to avoid being seen as attempting to challenge the military status quo and the prevalence of NATO. Furthermore, it is worth noting that five Member States continue to maintain military neutrality, with the launch of Permanent Structured Cooperation (PESCO), causing significant domestic controversies in previous years.

The goal of working towards 'a genuine European Defence Union' with an 'integrated approach to security' is likely to be a major point of contention in some Member States – militarily neutral or not. It remains to be seen as to whether the new Commission will be able to overcome these issues. As the history of defence policy in the European Union has often shown, the ECA's review found that 'the EU's success and future in the field of defence is fully dependent on the Member States' political will.'

### **Immigration and the European Way of Life**

In the wake of the refugee crisis, immigration has continued to be a hot topic in the Union. Rather than having a 'migration commissioner,' Ursula von der Leyen has proposed a portfolio with the controversial title of 'Protecting Our European Way of Life.' The Vice-President in charge will be responsible for implementing stronger borders and formulating a fresh start on migration by proposing new legislation 'to allay the legitimate concerns of many and look at how we can overcome our differences.' While it is necessary to seek to alleviate the legitimate concerns of the electorate, particularly in the wake of online disinformation and the rise of populism, critics of the portfolio title argue that it merely serves the further politicisation of the topic by pandering to right-wing extremism. While the President-elect has defended her decision amidst widespread criticism, the phrase has raised questions as to how this can and should be interpreted, particularly within the European Parliament. It is possible that the European Parliament will refuse to accept such a title – and all the elements in the portfolio that has been proposed for Margaritis Schinas and the proposed Home Affairs portfolio for the Commissioner-elect Ylva Johansson.

### **Finding the right balance - a condition for success**

The new Commission has clearly selected horizontal, cross-border issues as top priorities for their mandate. It is crucial that these issues are allocated enough financial resources in an EU budget that not only has a de facto ceiling of approximately 1% of the overall EU Gross Domestic Product (GDP), but is also characterised by traditionally large spending areas for the next seven years, such as Natural Resources (mainly related to the Common Agricultural Policy) and Cohesion policy. Moreover, the issue is that such achievements on cross-border issues are dependent on constructive cooperation with the European Parliament, the (European) Council, and key political parties in the field.

The goals of the new Commission can best be described as a delicate balancing act – weighting controversial policies on immigration and defence against progressive positions on climate change, gender quality, fair taxation and democracy. President-elect Von der Leyen is visibly attempting to both alleviate fears and be a source of inspiration within a diverse and apparently increasingly polarised electorate. Will it be possible to consolidate sufficient support from the European Parliament, not only for its composition, but also for the specific portfolios that have been proposed to achieve these goals?

# Promoting evidence-based decision making in the political process

## Interview with ECA President Klaus-Heiner Lehne

By Gaston Moonen



Klaus-Heiner Lehne

In September 2019, the ECA College re-elected Klaus-Heiner Lehne as its President for a second three-year term. Having served as a Member of the German Bundestag and the European Parliament, Klaus-Heiner Lehne knows all about political transition and what policymakers are looking for, especially when new in office. Looking back, what does he find essential in the interaction between the ECA and its political stakeholders – the European Parliament and the Council? And what are some important elements that those in the political driving seat should consider?

### Leading the ECA for another three years

Klaus-Heiner Lehne smiles when congratulated for his re-election as the President of the ECA (see Box). 'Thank you very much. The confidence that my colleagues have shown motivates me to continue with our joint efforts to modernise the Court and reinforce its role as the external auditor of the Union. We can see that our reports are increasingly used to help improve the EU's financial management and its regulatory activities. I also get a lot of positive feedback from my colleagues, the Presidents and Auditor Generals from the Supreme Audit Institutions (SAIs) in the Member States and beyond. Finally,

#### **Box 1 – Klaus\_Heiner Lehne re-elected as ECA President**

In September 2019, the ECA College re-elected Klaus-Heiner Lehne as its President for another three years. His second term as ECA President runs from 1 October 2019 to 30 September 2022. The Council first appointed him as ECA Member in 2014. In May 2019, the German Government proposed to renew his mandate for another six years, starting from 1 March 2020.

I am very grateful for the excellent collaboration between the Members in our College, and for the dedication and enthusiasm of our staff.'

Regarding his priorities for his renewed mandate as ECA President, Klaus-Heiner Lehne wants to build on the successful changes introduced under the ECA's current 2018-2020 strategy. 'First we have to transpose the existing strategy into a new one. We had our annual ECA seminar in September, where we discussed the implementation of our current strategy and reflected on our post-2020 strategy. A peer review on our current strategy will be finalised in the coming months, and we have already received the peers' preliminary feedback.' He states that the peers' final report is expected at the end of 2019. 'One thing to emerge from our discussions in September is that our next strategy will most probably span a period of five years.'

### Being non-political but politically relevant...

A five-year strategy would bring the ECA in line with the European Council and the European Commission. The start and end dates would be different, but this is not a problem. 'The ECA is a non-political institution. As a former politician I can tell you that we are indeed a non-political institution. But what we do is of course politically relevant.' He therefore finds it all the more important to have a close connection to ECA stakeholders, particularly the European Parliament and the Council. 'What our stakeholders are doing naturally has an impact on our work.'

“*What our stakeholders are doing naturally has an impact on our work.*”

During his time as a Member of the European Parliament, Klaus-Heiner Lehne was particularly active on the Legal Affairs Committee, which he chaired for five years. On that committee, he did not deal with ECA publications often. 'Of course I had heard about ECA reports, but the only report with which I really had any dealings during my time on the Legal Affairs Committee was the first special report on better regulation and the EU's impact assessment system – a topic clearly relevant for my committee at the time. As chair of this committee, as well as through my work on the internal market committee, I was responsible for issues relating to impact assessment.'

For the ECA President, changing institutions in 2014 also meant changing certain habits. 'Formerly, if I read a newspaper article in the morning and the content annoyed – or even angered – me, I would speak to a journalist and I pass on some information that would disprove what had been written in the newspaper. And there would be a good chance that what I brought up would be found in the newspaper in the following days.' He makes clear that ECA Members cannot do things like that. 'You are more akin to a judge; you have to be fully independent. This means that you must not interfere in the actual politics of day-to-day life.'

“*[ECA Members] must not interfere in the actual politics of day-to-day life.*”

### ...means keeping your ears open to those in politics

When it comes to influencing a non-political institution like the ECA, the ECA President has some advice for politicians. 'If they make good proposals for audits we will probably take them on board in our annual work programme.' He refers to the ECA's recent annual work programmes. 'The European Parliament has made, on average, about 60 proposals per year. We have taken more or less between one third and half of these suggestions on board in our annual working programme. Of course, they have to be good proposals!'

Klaus-Heiner Lehne points out that improving relations with ECA stakeholders is an important objective in the 2018-2020 ECA Strategy. 'I think that we have made a lot of progress with the European Parliament. In the last legislative term, I was invited to the Conference of Presidents (the meeting of leaders of political groups), which is the

highest decision-making body in the European Parliament apart from the plenary. And each year I meet chairs of committees in the European Parliament's Conference of Committee Chairs for a stimulating exchange of priorities. It is important for us to listen to them and provide some of our key findings since they are key people dealing with legislation.'

Overall, he considers relations with the European Parliament excellent. 'We have improved our relations with the Budgetary Control Committee (CONT) and just about all the other specialised committees.' He illustrates this by citing the meeting the ECA College has already had with Monika Hohlmeier, the new chair of CONT. He underlines that the ECA is very well aware that CONT has limitations in its capacity to deal with the around 35 to 40 special reports published by the ECA on an annual basis, on top of the different chapters of the annual report. 'But the specialised committees are very much interested in our performance reports. There are more than 20 specialised committees. It should be perfectly manageable for them to deal with an average of two reports per year.'

“ ... the specialised committees are very much interested in our performance reports.

It is clear to the ECA President that proper arrangements need to be in place with CONT and the specialised committees. He explains that joint meetings could be organised to which a specialised committee could invite CONT members and the CONT chair. 'Then of course they could receive the report at more or less the same time, and both committees could hold a discussion, even if the specialised committee may be more concerned by the topic of a report. In fact, if you take a close look at our special reports, it is not too difficult to make a selection. I therefore welcome CONT's recent decision of principle to move in this direction.' He points out that there are reports which are more related to CONT's areas of competence: mainly audits with a stronger focus on financial aspects and compliance aspects. 'And then you have other reports more dealing with pure performance aspects, which are probably of more interest to the specialised committee than to CONT.'

Regarding relations with the Council, the ECA President considers there is still much work to be done. 'We have made a bit of progress, but not enough yet in my view. When it comes to access, the Council is sometimes a bit complex.' He points out that every year he presents the ECA annual report in the Economic and Financial Affairs Council (ECOFIN). 'But discussion of our performance reports is rare, although it does happen, as we had, for example, when I presented our special report 3/2018 on the macroeconomic imbalance procedure to ECOFIN, at a ministerial meeting.' Klaus-Heiner Lehne feels that the relationship with the Council needs further development and improvement. 'It needs time and supportive Council presidencies. I have to say the cooperation with the Finnish Presidency, and in particular Minister Tuppurainen, has been excellent, also content-wise.'

“ When it comes to access, the Council is sometimes a bit complex.

### **Serving ECA stakeholders with different products in different formats**

You need only glance at the ECA website to see that in the last few years ECA output has become more diverse than ever before, with the institution publishing compliance and performance audit reports, opinions, landscape reviews, briefing papers, and so on. This larger publication mix was not only designed to increase readers' appetite; Klaus-Heiner Lehne explains that external factors also came into play. 'An important reason is that the classical performance audit requires a lot of time. At the same time, the EU Financial Regulation foresees that in principle such an audit should be done in 13 months. Sometimes we need more time than that – often for reasons beyond our control.' He gives an example: the ECA may face restrictions in getting access to data or delays from

auditees. 'But sometimes our stakeholders simply ask us to deliver products in a shorter timeframe and provide information, even if based on past audit results. So they ask for more of a consolidation or overview, rather than real audit products as such.'

The ECA President says that, while the ECA has widened the scope of its activity, it is not completely where it wants to be. 'For our institutional stakeholders, and also the media, it is at times difficult to distinguish between products the ECA publishes. Is this an audit report which followed certain procedures, including an adversarial procedure with the auditee, or is it something else?' He thinks the ECA has to find a way to describe this distinction and make it clearer for stakeholders what each product is and what work went on behind it. 'We are working on how we can improve this, through our Audit Quality Control Committee, and also with the aid of the feedback of the peer review I talked about before.'

### Knowing the facts...and acting upon them

When speaking about the ECA's ambitions for the future, Klaus-Heiner Lehne believes that modern audit institutions are clearly trying to find ways to best provide added value for their stakeholders and citizens. 'In the past the ECA was sometimes called the "financial conscience" of the EU taxpayer. And recently we were labelled a "regulatory watchdog". I think both labels fit.' He explains that the ECA is evidently a financial watchdog, as the guardian of the EU's financial interests. 'And when we do our performance audits, we are of course often focusing on regulatory aspects.' In his view, this is needed and the ECA's institutional stakeholders, and indeed citizens, expect this of the ECA. 'Obviously this view is not shared by all our partners, but by many of them. For example, when we speak with people from the European Parliament, or national parliaments in the Member States, we see that our work is held in high and strongly positive regard.'

### A call for evidence-based policy making

The ECA President has a wish he would like to put to the decision-makers on the new EU political landscape. 'In these times, where there is a plethora of information swirling around, they should simply be careful. They should not follow political trends; they should not follow tendencies that are just relevant because they are in the media. They should act based on robust evidence. And I think we, as the Union's external auditor, can support them by delivering fact-based information and meaningful analysis.' He points out that focusing on facts and taking decisions based on robust analysis may often require time. 'Therefore, instead of rushing things through, it is often better to have a longer legislative process and to think thoroughly about the decisions that you are going to take. That is what I would expect and certainly hope they will do.'

“ They [decision-makers] should act based on robust evidence.

# Lessons to be learnt from the past for the new MFF

By Zsuzsanna Csak, Directorate of the Presidency, and James McQuade, Financing and Administering the Union Directorate



The Multiannual Financial Framework (MFF) - the EU's long-term budget - is sometimes seen as the blueprint for EU's political and financial priorities for the next seven years. No surprise that negotiations on the MFF take a long time, with Member States and institutions trying to influence the initial Commission proposal during negotiations. Zsuzsanna Csak and James McQuade elaborate on the MFF process, some key lessons that can be drawn from the current MFF and provide an update on some challenges ahead. In this, they draw on the ECA's briefing papers on the 2021-2027 MFF to which both have significantly contributed.

## ECA's main messages from the current MFF period

When ECA President Klaus-Heiner Lehne presented on 8 October 2019 the 2018 Annual Report to the European Parliament, he highlighted that the EU stands at an important crossroads and that as the EU we must seize the momentum to deliver results. Helping the EU - and in particular the newly elected European Parliament and the new Commission - as well as its Member States to do so is one of the key aims underlying our audit and review work.

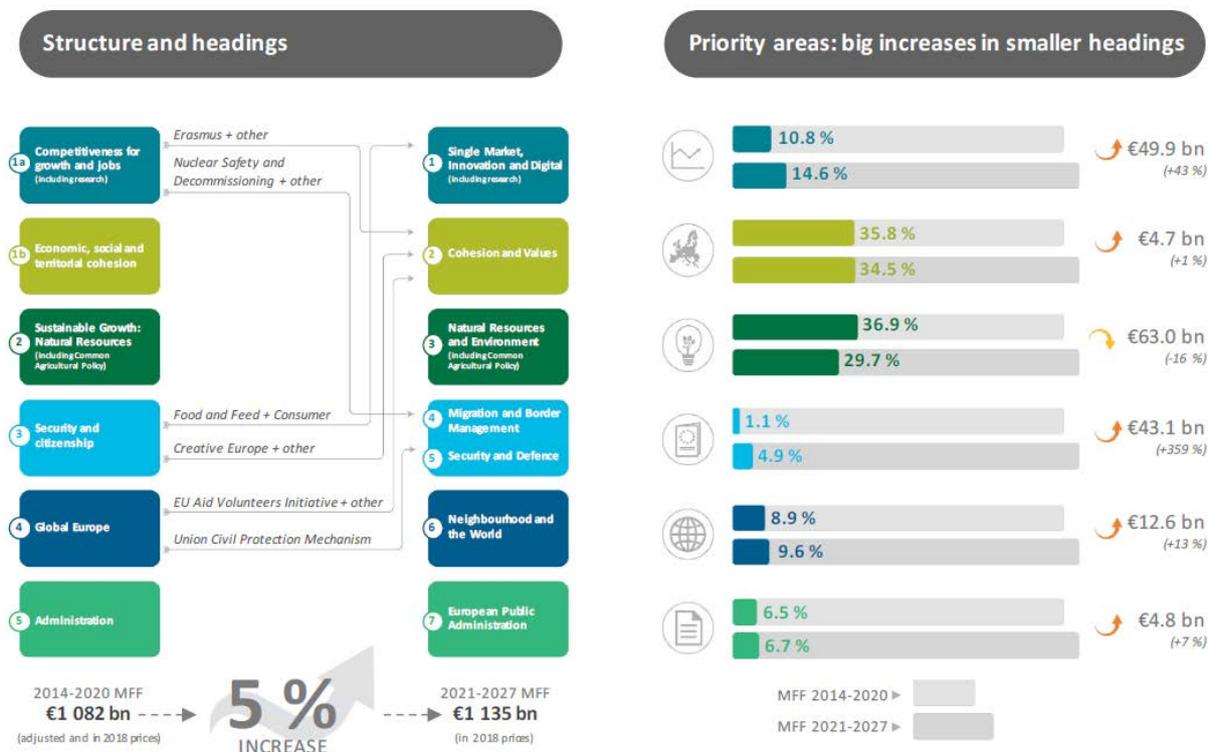
Sometimes, however, we are criticised for not seeing the forest for the trees; issuing too many reports, across different types of products, too many recommendations at different levels. All of this, it is argued by some, dilutes our messages and makes it more difficult to see for outsiders what we - as the EU auditors - stand for. While we may disagree with such criticism, we do agree that summary documents can help get our main messages across.

At the initiative of the ECA Member Mihails Kozlovs, the ECA therefore decided to summarise our views on the multiannual financial framework (MFF) into one succinct document, which was published as ‘[ECA Remarks in brief](#)’ on 14 February 2019 (see **Box 1**). In it, we presented key messages for the EU’s co-legislators to consider when negotiation and discussing the Commission’s legislative proposals for the 2021-2027 MFF (see also **Figure 1**).

**Box 1 – What is the Multiannual financial framework**

The Multiannual Financial Framework (MFF) is the long-term budget of the European Union. It sets the maximum funds available for each of the EU’s main spending categories for a period of currently seven years.

**Figure 1 – Proposed changes to the EU 7 - year budget**



Since its publication, many things have changed at EU level and many uncertainties remain. The EU’s main institutions - the European Parliament, the European Council, the Commission and the European Central Bank – have new leadership. Trade relations with the US have deteriorated, and at the time of writing, we still do not know the outcome of the planned withdrawal of the UK from the Union. Meanwhile, pressure is growing to conclude the inter-institutional negotiations on the next MFF and the sectoral regulations. In June 2019, the European Council reconfirmed its aim to reach an agreement between Member States before the end of 2019. Commission President-elect Ursula von der Leyen and the Commissioner-designate for Budgetary Affairs, Johannes Hahn, both highlighted the importance of a timely agreement on the Multiannual Financial Framework. In our ‘[ECA Remarks in brief](#)’, we highlighted the negative financial management consequences of a late adoption of MFF legislative proposals for the 2014-2020 period. But despite these calls for urgency, it now appears that the negotiations of the next MFF may drag on into the German Presidency in the second half of 2020. This means that the EU risks not learning the lessons of the negotiations on the 2014-2020 MFF, when a last minute deal was agreed and adopted only in December 2013.

## **ECA's role and views concerning the MFF**

On 1 March 2017, the Commission presented a White Paper on the future of Europe. It marked the starting point for a public debate on the future of the European Union. To contribute further to the discussion, the Commission put forward a number of reflection papers on key topics, on the social Europe, the European Monetary Union, Defence, Security and Migration and Globalisation that will shape the EU in the coming years. Early in 2018, at their regular annual meeting with the Commissioners, our ECA Members had the opportunity to discuss the systemic issues we have identified in our audit work over recent years.

While it is not the role of the ECA to assess the political priorities or to provide a view on the amount or allocation of EU funding in the MFF, we wanted to contribute to the debate on the next MFF and to provide the legislators with advice on how to improve EU financial management and the transparency and accountability of the EU budget system. In our February 2018 [Briefing paper on the Future of EU finances](#), we called for an increased emphasis on the value added of the EU budget, along with more flexibility and transparency.

On 2 May 2018, the Commission then published its [proposal](#) for the next long-term budget of the EU – the MFF 2021-2027. In the [ECA briefing paper on the Commission's proposal](#), we noted that the Commission had partially taken account of our proposals. However, we also considered that a number of elements still needed to be tackled, such as developing a comprehensive financial plan, determining the EU's strategic objectives more clearly, strengthening the performance framework, ensuring adequate accountability and transparency and - last but not least - strengthening public audit in the Union by mandating the ECA to audit all EU bodies.

Subsequently, in 2018, we also issued a number of more detailed briefing papers on Commission proposals on Cohesion policy, the EU research programme and the Common Agriculture policy. In addition, other institutions have requested ECA opinions on ten legislative proposals in relation to the post 2020 spending areas (see **Box 2**).

The main objective of our 'ECA Remarks in brief' was to summarise our main points regarding the process of setting spending priorities for the EU, the flexibility of the EU budget, and the performance orientation and administrative simplification of programmes as well as the overall EU accountability and audit arrangements. At the time of writing, the EU and the Member States are still negotiating the EU's spending priorities under the next MFF and scrutinising the related legislative proposals.

### **Box 2 - What are ECA opinions?**

With respect to the Commission's legislative proposals, ECA perspectives take the form of opinions. We issue opinions either at the request of one of the other EU institutions or, where a proposal has an impact on EU financial management or concerns the methods and procedures for collecting EU revenue, they are mandatory. The mandate to issue such opinions is given to ECA by Article 287(4) of the Treaty on the Functioning of the European Union.

## **Accommodating political priorities into the MFF**

Strategic objectives for the EU after 2021 will also need to be set before the start of the next MFF period. The new Parliament, new Commission President and new European Council President are – or soon will be - engaging in that process. This will provide an opportunity to reconsider aspects of the initial MFF proposals and complement them with a comprehensive financial plan incorporating also the sources of finance outside the EU budget that will be used to meet those EU objectives.

Similarly, as we understand it, the new initiatives announced in the Political Guidelines of President-elect Von der Leyen will need to be accommodated within the framework of the existing MFF proposals. This means, as highlighted by the Commissioner-designate, giving a more specific emphasis in the ongoing negotiations to certain elements and identifying targeted adjustments where necessary. However, the 'clock is ticking' towards the start of the next MFF in 2021.

As things stand, challenges remain even before the next MFF is adopted and implemented, including finding an agreement of whether (and how) to link payments from the EU budget to the Member State's application of the rule of law. Interestingly, this aspect does not require unanimity among Member States, but can be adopted by qualified majority. Nevertheless, how such rules will be formulated may have an impact on the outcome of the MFF financial envelope, and to which policy area the money will go. The EU institutions and the Member States need to agree each sectoral regulation in the MFF package before implementation can start. However, that may prove difficult before an agreement has been reached on the overall finances available under the next MFF package.

In view of the timeline, the Council presidency is to present a 'negotiating box,'<sup>1</sup> a document laying out a menu of options for leaders on the key points of contention. This document would then be the basis for the discussions of the European Council in December 2019. A key point of contention is the overall size of the EU budget. The net payer countries aim at limiting the EU budget to no more than 1% of the Union's Gross National Income (GNI). The Finnish Presidency has floated the idea of a budget sized between 1,03% and 1,08% of EU GDP. However, this proposal falls short of both the Commission proposal (1,14%) and the views expressed by the EP (1,3%). But there is still a wide divergence of views among Member States, as again shown at the European Council on 17/18 October 2019.

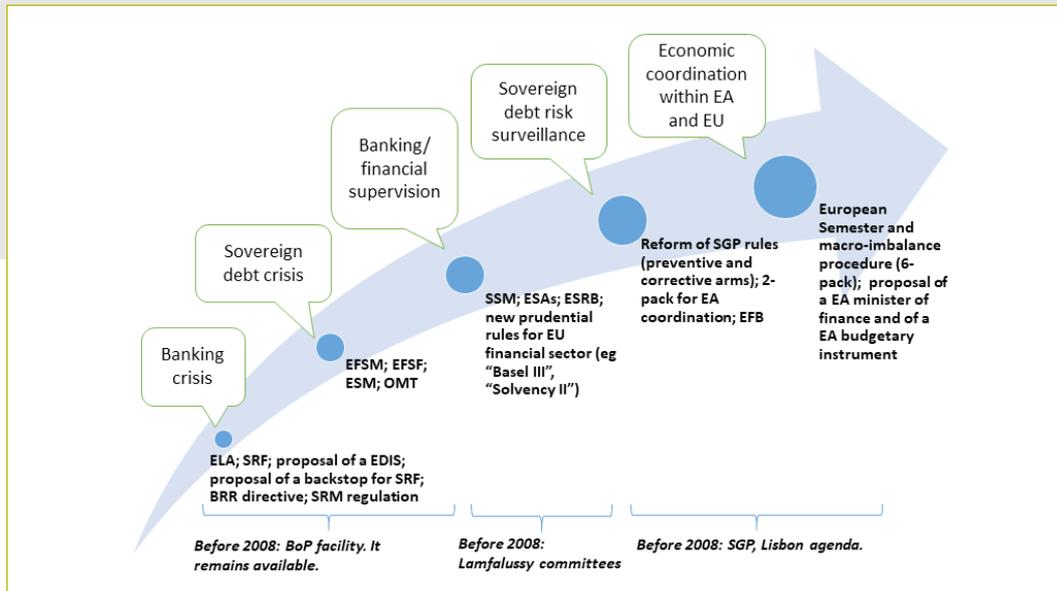
In the meantime, the EU co-legislators need to ensure that new or renewed spending programmes have strong performance frameworks that make full provision for public scrutiny and audit, as recommended by the ECA. The ECA will continue to contribute actively to the public debate on the future of EU finances based on our audit work, in order to promote a more efficient and transparent EU budget system.

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<sup>1</sup> Council 14759/18

# ECA's work on financial and economic governance - connecting expert views and citizens' concerns

By Kamila Lepkowska of the ECA's 'Regulation of Markets and Competitive Economy' Directorate



One of the key objectives of any modern audit institution is to check the extent to which governments have delivered results for citizens. This primarily requires transparency and insight into what are sometimes rather complex solutions to complex problems. This is especially true at EU level, where by definition public action has a cross-border dimension. Less obviously, however, it also concerns citizens' day-to-day lives, making it particularly challenging to audit. Kamila Lepkowska has been a senior auditor on several audits in the area of financial and economic governance. Here, she shares specific examples to demonstrate the importance of these rather technical issues for ordinary citizens, making insiders' actions understandable for outsiders.

## Demystifying acronyms

Anyone who remembers their first time at a financial or economic conference will undoubtedly recognise the feeling of being overwhelmed by the famous letter-salad of acronyms. These acronyms, rattled off at the speed of a TGV train, create a linguistic barrier rendering the world of financial regulations and economic coordination all but impenetrable to outsiders. The ECA first entered this world in 2013, when it established the Financial and Economic Governance (FEG) team within one of its audit chambers. Since then, we have carried out numerous audits and issued a large number of opinions on legislative proposals in the field (see **Box 1**), and got into the complex language and spreadsheets behind them.

### Box 1 – The ECA's 10 most recent publications on financial economic governance

- [Opinion 2/2019](#) on the proposed financial regulation of the Single Resolution Board
- [Special report 10/2019](#) on EU-wide stress tests for banks
- [Audit preview: Control of State aid to banks](#)
- [Special report 3/2019](#): European Fund for Strategic Investments
- [Special report 29/2018](#) on EIOPA
- [Opinion 2/2018](#) on the establishment of a European Monetary Fund
- [Special report 18/2018](#) on the preventive arm of the Stability and Growth Pact
- [Special report 3/2018](#) on the Macroeconomic Imbalance Procedure
- [Special report 2/2018](#) on the ECB's crisis management for banks
- [Special report 23/2017](#) on the Single Resolution Board

Yet demystifying this area goes way beyond spreadsheets. In the first instance, it is about meeting people and translating their messages in each other's languages. This can work in both directions. We might take the insights collected when interviewing people or businesses, analyse them, and produce findings that help to improve the management of the European economy. Alternatively, we might start with highly sophisticated, theoretical expert input and see what it means in practice for people and businesses working in a specific area.

### **The power of regulation**

Auditing the programmes providing support to Greece in response to the financial crisis was one of the ECA's most complex tasks ([special report 17/2017](#)). We reviewed the design and implementation of programme conditions in policy areas as diverse as budgetary savings, labour markets, financial markets, pension schemes and many others. Given this broad range, we had to meet with numerous stakeholders ranging from representatives of SMEs to the uppermost ranks of the Greek ministries.

Some of our most eye-opening encounters concerned market regulation. This not only involved markets such as energy or banking, where you would expect regulation to have a huge impact. We learned also that the rules on information to be presented on yoghurt packaging or the duration of fresh milk's shelf life could have a decisive effect on market structure and favour certain types of business.

Without meeting stakeholders, we would not have known that it actually makes a big difference whether bread is priced per loaf or by weight. Whereas local bakers tend to price their bread per loaf, imported 'bake-off' goods are typically priced by weight. Without judging the specific solutions, meeting small businesses and their representatives in Greece made us aware that well-designed programme conditions are not an abstract issue. Quite the opposite, in the field of market regulation they can strongly influence consumer choices and the future of certain businesses. This was subsequently reflected in our recommendations on programme management.

### **Insurance market : when statistics create trust**

In last year's audit of European insurance supervision ([special report 29/2018](#)), we dealt with the highly complex risk models underlying the insurance business. To strengthen the quantitative aspect of the assessment, we worked together with external experts – physicians and mathematicians with decades of experience in translating insurance risks into numbers. We involved the experts in examining the European stress test for insurance companies. This exercise should inform national supervisors and purchasers of insurance whether companies are robust enough to survive the most difficult market conditions or extreme natural disasters.

Again, this is not an abstract question, but a way of ensuring that even in very difficult circumstances insurance companies will not leave their customers without protection. It is a simple objective, but the mathematics behind it are very complex. Our experts considered the models using sophisticated statistical methods and analysed the strength of the scenarios against which the insurance companies were tested. The scenarios had to be strong enough to simulate a very difficult market situation, but still be realistic.

We then validated the results and used them to draw up systemic recommendations for designing the stress test. The objective was future-oriented. We did not make suggestions about tiny details of the specific parameters used in the stress test. Instead, we showed how the entire process could be improved to achieve greater transparency and trust, and ultimately increase security for all clients of European insurance companies.

### **Abstract titles, real people's needs**

Insurance and Greek support programmes are just two examples from a vast range of ECA audits in the field of financial and economic governance. Although their titles may seem abstract at first glance, the auditors' work involved real people and a lot of thought about their needs and concerns. The sheer scope of the field of financial and economic governance, its complexity and often specialist nature are even more reason for the ECA to audit this area. With the financial crisis still fresh in our minds, we must also consider the potential impact of this field for EU citizens.

Overall, we could say that the more complex the policy area, the more important the role of the external auditor. They act on behalf of the citizens to ensure that there is public scrutiny of results and impact, and provide information and analysis for use by citizens' political representatives. In some areas, such as financial and economic governance, scrutiny must take place at EU level if it is to be effective, given the cross-border issues that affect the entire European Union.

# Dissemination of the ECA's work beyond institutional stakeholders: the audit of the Macroeconomic Imbalance Procedure as an example of good practice

By Giuseppe Diana, Maëlle Bourque, Shane Enright and Stefano Sturaro,  
Regulation of Markets and Competitive Economy Directorate

Once an audit is completed, the next challenge is getting the report read and taken into account in policy decisions. Giuseppe Diana, Maëlle Bourque, Shane Enright and Stefano Sturaro are experienced auditors in the area of financial and economic governance concerning the multiple measures the EU has undertaken to mitigate systemic risks in finance and banking and to stimulate fiscal prudence. They explain that their work as auditors did not end once the report was published. Beyond presenting the audit report to key stakeholders, such as the European Parliament and the Council, they also reached out to many different audiences in the EU. Below they give some insights into the actions undertaken to disseminate an ECA performance audit report.



Source: © Shutterstock.com

## What is the Macroeconomic Imbalance Procedure?

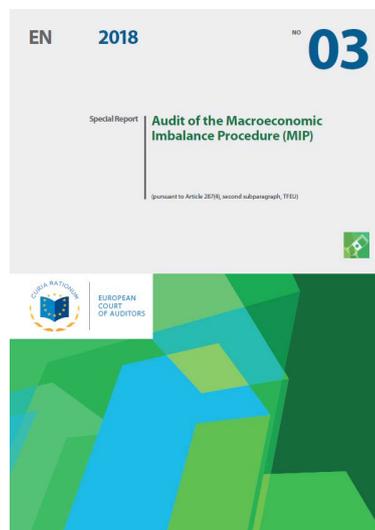
Before touching upon the actions we undertook to promote ECA special report 3/2018 on the Macroeconomic Imbalance Procedure (MIP), some details on the topic itself may be useful.

Before the 2008-2009 crisis, the EU's economic governance framework (the body of rules governing Member States' economic policies) focused on the sustainability of fiscal policies. It was essentially limited to keeping public deficits and debt under control. The crisis and its aftermath showed that the framework had failed to detect or prevent the build-up of other types of macroeconomic imbalance, such as the deterioration in external balances and competitiveness, housing bubbles and excessive debt accumulation in the private sector.

The MIP was introduced in 2011 with the aim of preventing similar developments in the future, and supporting policies for reducing imbalances stemming from the pre-crisis boom. The MIP targets the detection, prevention and correction of macroeconomic imbalances and is embedded in the European Semester, which is the framework introduced in 2010 for the broad coordination of economic policies across the EU.

**Box 1 – Main conclusions of special report 3/2018 on the Macroeconomic Imbalance Procedure**

Our audit finds that the MIP is generally well designed. At the same time, the Commission is not implementing the MIP in a way that would ensure effective prevention and correction of imbalances. We conclude that the classification of Member States with imbalances lacks transparency; that the Commission's in-depth analysis has become less visible over time; and that there is a lack of public awareness of the procedure and its implications. Among other things we recommend the Commission should substantially improve certain aspects of its management of the MIP and give it greater prominence. More details can be found in the [report](#).



From left to right: former ECA Member Neven Mates (reporting Member), and Giuseppe Diana, Head of task, at the Budgetary Control Committee in the European Parliament

**Action undertaken after the publication of the special report**

The special report on MIP was published on 23 January 2018. At that moment, all four team members had already started to work on other tasks. Nevertheless, a number of dissemination activities were planned to promote the report. As envisaged, the MIP report was first presented by former ECA Member Neven Mates to the Budgetary Control Committee (CONT) of the European Parliament on

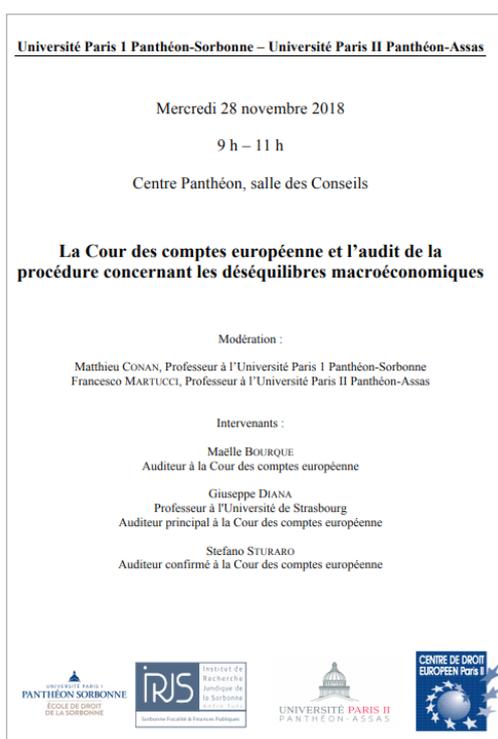
31 January 2018. Moreover, and as the first ECA special report ever, it was also discussed by ECA President Klaus-Heiner Lehne at the Economic and Financial Affairs Council (ECOFIN) meeting on 13 March 2018.

In addition, the audit team was closely involved in a series of dissemination activities right from the start. Overall, during 2018, 12 presentations were organised for various organisations in Belgium, France, Germany, Greece, Ireland and Luxembourg (see **Table 1**).

**Table 1 – Presentations organised on special report 3/2018**  
(in addition to the ones to the EP and the Council)

When?	Who?	Where?	How many auditors?	Approximate audience
19 February 2018	LIME Working Group*	Brussels, Belgium	2	30
26 February 2018	Economic Policy Committee	Brussels, Belgium	2	50
07 March 2018	European Stability Mechanism	Luxembourg, Luxembourg	1	25
23 April 2018	Irish Ministry of Finance	Dublin, Ireland	1	15
12 June 2018	University of Trier	Trier, Germany	2	40
28 September 2018	University of Strasbourg - Economic department	Strasbourg, France	3	20
10 October 2018	College of Europe, Bruges	Bruges, Belgium	1	15
22 November 2018	University of Luxembourg	Belval, Luxembourg	4	25
28 November 2018	University of Paris Sorbonne	Paris, France	3	20
29 November 2018	14 <sup>th</sup> International Conference – Economic Society of Thessaloniki	Thessaloniki, Greece	1	120
6 December 2018	University of Lille	Lille, France	3	30
17 December 2018	University of Strasbourg - Law department	Strasbourg, France	1	30

\* Working Group on the methodology to assess Lisbon-related structural reforms, a working group of the Council's Economic Policy Committee.



Example of an announcement of one of the presentations

We considered it particularly important to reach out to committees comprised of Member State officials, as these are the people at national level who are involved in implementing the relevant policies, and academia. Generally, the audiences greatly appreciated our initiative. This was particularly true of universities, which really welcome interactions with EU institutions and are very willing to organise this kind of event. These presentations also increased awareness of the role and the work carried out by the ECA beyond the report itself.

These events are also an important networking exercise, which can be useful, for example, in organising panels of experts or hiring experts for contracts, as we do regularly in several policy areas, not least in the area of financial economic governance.

They also turned out to be an opportune moment to advertise the professional opportunities offered by the ECA, ranging from traineeships to auditor positions at different levels.



From left to right: Shane Enright, Maëlle Bourque, Stefano Sturaro and Giuseppe Diana, at the University of Luxembourg.

Obviously, dissemination activities always come at the cost of less time available for audit work. But, at least in our case, the additional resource requirements were actually rather low! On average, two auditors were involved in each of these presentations. Moreover, most of them were given not too far away from Luxembourg and/or combined with other commitments, such as an audit visit to Paris for a new task.

### **A practice to be encouraged**

Such dissemination activities can increase the impact of our reports far beyond the audited entities or countries, as they highlight issues, methodology used and lessons learnt that can be relevant for policy makers and civil servants at several levels, for researchers and for the decision-makers of the future - a multiplier effect that should not be underestimated. And indeed, this is a good practice which has already been followed for several other special reports (for example, see ECA Journal 11/2018 as regards our special report 8/2018 on Public-Private Partnerships). To sum it up: we can strongly recommend planning from the outset for extensive dissemination activities for our reports.

# Well on track, but not there yet !

## Interview with Rimantas Šadžius, ECA Member

By Derek Meijers and Gaston Moonen



Rimantas Šadžius

In 2017 and again in 2019, the ECA College appointed Rimantas Šadžius as its Member for Institutional Relations, a role in which he strives to improve and deepen cooperation with the other EU institutions and stakeholders in the Member States. We interviewed him to find out how he sees the ECA's relationship with the European Parliament (EP) and the Council and where he would like to see further improvements.

### **A bridgehead in Brussels**

Rimantas Šadžius has been the ECA's Member for Institutional Relations (MIR) now for two and a half years. This is a responsibility within the College of ECA Members which was created relatively recently. Ville Itälä, the former Finnish ECA Member, was the first MIR and he took on the responsibility of improving the ECA's relations with its institutional stakeholders within the framework of the ECA's 2013-2017 strategy. Rimantas Šadžius: 'Ville Itälä did a great job in building the key relations with stakeholders, especially with the European Parliament. He helped to intensify these relations to promote our work, but also to position ourselves better as an important source of information for our institutional stakeholders. You could say he paved the way for me as his successor as MIR.'

Adding to this, Rimantas Šadžius points out that, back then already, one of the ECA's goals was to 'improve outreach to our audiences, meaning institutional stakeholders and citizens, to increase our relevance to the good functioning of this Union. There were, however, a number of challenges and barriers that we needed to overcome to increase our reach.

To explain the importance of good institutional relations, Rimantas Šadžius goes back to the specific framework of the EU. 'For each supreme audit institution (SAI) it is crucial to have a 'central-to-go-to' committee in its parliament, as a first stop en route towards spreading your message, one that is always ready to listen and that passes on your messages to other relevant committees in parliament. In the European Parliament, that is the Committee on Budgetary Control (CONT).' Rimantas Šadžius points out that the ECA can consider itself lucky to have such a strong partner within the EP, as not all national parliaments have an equivalent committee focussing on budgetary control. 'And that makes it much harder for an SAI to be heard in parliament.'

### Taking the floor in parliament

Rimantas Šadžius is pleased about what the ECA has accomplished in the EP, especially when taking into consideration just how many reports the ECA publishes each year. 'In 2018, we published well over 40 reports, all of which we want to bring to the attention of the Members of the European Parliament (MEPs). One of the challenges we faced here was that we had to go through the CONT before we could present our work in other EP committees.' He points out that the CONT is unable to deal with all ECA products on its own in a timely manner. 'So previously, you had a large number of reports, covering a broad range of EU policies, but not enough parliamentary ears to present them to.'

Rimantas Šadžius explains that, by definition, the ECA publishes different audit products on a variety of EU policies throughout a calendar year. 'It is crucial to publish reports in all policy areas, we cannot concentrate all our work on a single area each year, that way we would lose our experience in other areas. This is also illustrated by the fact that we have several audit chambers specialising in specific policy areas.' He adds that, when the ECA established the MIR function, the idea was to make better use of this plurality and to reach out to all of the various EP committees.'

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It is crucial to publish reports in all policy areas, we cannot concentrate all our work on a single area each year...

He underlines that improving that outreach was a joint effort by the ECA President, Klaus-Heiner Lehne, and all the ECA Members. 'Thanks to their efforts and the goodwill and cooperative stance of the EP, especially the CONT, we managed to open up new roads to the specialised committees. As MIR, it was my task to meet with as many relevant committee chairs as possible, for example the AGRI, REGI, and TRANS committees.' Also, it is not a given that new MEPs are aware of the ECA and its work. Rimantas Šadžius: 'Every new legislative period we present ourselves and our work to the new MEPs, explaining what the committee could expect from us and illustrating how we can support the MEPs in their work. And why it is important to take our reports into consideration.'

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... it is not a given that new MEPs are aware of the ECA and its work.

### Being more than a financial watchdog

When asked about the approach the ECA takes to advertising itself and its work in Brussels, Rimantas Šadžius opens his toolkit for inter-institutional courting. 'Creating a demand is crucial. To achieve this, we ask the MEPs to come up with proposals, audit ideas that the committees could put forward to the ECA. In turn, we will consider these ideas when we prepare our annual work plan. Of course, the ECA is fully independent in deciding what it will audit, and by no means are we obliged to take up all the EP's audit ideas. But as many MEPs are specialists in their respective policy areas, it is also obvious that their ideas and proposals are very relevant for us when selecting and prioritising audits.'

Rimantas Šadžius: 'Especially when we started doing this, we found we had to manage the MEPs expectations and explain in greater detail what the ECA can do and what it cannot. We do not engage in politics, for example, this is not the job of auditors. We only provide high quality audit evidence and analysis.' He points out that some MEPs would like the ECA to move more in the direction of presenting more detailed recommendations

in its reports. 'Or even come up with our own legislative proposals. However, this is not what we offer. We can contribute to the legislative discussion, but we cannot take part in the legislative process! Such expectation management and clarifying our role and possibilities is another thing I try to do in my meetings with representatives of the EP and our other institutional stakeholders.'

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We can contribute to the legislative discussion, but we cannot take part in the legislative process!

For Rimantas Šadžius it is clear that the ECA is a non-political organisation that tries to be relevant in a political environment. 'Being an expert in the field we are well placed to contribute to the political process. What we put in our reports is based on audit evidence that we have thoroughly checked and verified. Our recommendations are based on our professional judgement and we provide the legislators with an overview of the situation in a given policy area, more and more often including concepts and scenarios.' He thinks the ECA is quite advanced in creating this added value for parliamentarians, going well beyond the more traditional audit scope. 'This is also the reason that some people have said that we are developing towards becoming the EU's regulatory watchdog that also looks at the impact of regulation, rather than examining only financial aspects.'

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... we are developing towards becoming the EU's regulatory watchdog that also looks at the impact of regulation...

### Good symbiosis with the legislator

Matching its audit work to the legislative work in the EP is another important factor that helps the ECA to become increasingly relevant. 'That is crucial and I took that as a guiding goal when I took over the MIR role. To cut a long story short, we decided to reach out to all the EP committees to be better aware of their cycle and the topics they are working on, so that we can publish relevant reports at the right moment.' He concludes that this approach has proved to be useful. 'The Parliament is also willing to go a step further and to grant us better access, not only to the CONT but also to the specialised committees. This is again an important shift in EP-ECA relations, so I am very optimistic for the new legislative period.'

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... reach out to all the EP committees[...] so that we can publish relevant reports at the right moment.

Rimantas Šadžius gives an example from his personal experience of how important timing can be. 'Following the publication of a special report for which I was the reporting Member, special report 22/2018 on Erasmus+, we had a very good meeting with the EP Committee on Culture and Education (CULT). The report put two consecutive points on their agenda: the findings from our Special Report, and a legislative proposal for an Erasmus regulation for the next financial period. We tied them together and it was a successful example of cooperation not only with the rapporteur but also with the rapporteur for the legislative proposal concerned by the report. All our proposals and recommendations were included in the proposal for the EP's position. During the discussions, I had an opportunity to comment several times on the legislative proposals – of course within the limits of my remit as an ECA Member.'

He considers this to be a good example of a situation in which the legislators make good use of ECA recommendations in their legislative work. 'Overall, we see that many questions are put to us when a report is discussed in a committee other than the CONT. Which is logical, since these committees often consist of experts that know their subject quite well. They evaluate our conclusions and recommendations and assess whether they are relevant for the legislation they are working on.' He observes that the ECA's work is increasingly being taken into consideration by the branch committees. 'Many of my colleagues here share this positive experience.'

### Room for further improvement

Relations with the EP have improved over the past few years and Rimantas Šadžius is eager to do the same regarding relations with the Council. 'Apart from the EP, the Council

is the other main institutional stakeholder for the ECA. But there is still a lot of room for improvement in our cooperation, for example when it comes to presenting our special reports to the Council of Ministers.' He notes that a good example in this respect was the presentation of [special report 3/2018](#) on the Macroeconomic Imbalance Procedure to the ministers in the Economic and Financial Affairs Council - ECOFIN.

While he would welcome more presentations at minister level, Rimantas Šadžius keeps a down-to-earth perspective here. 'I think it is important to be more heard, to become more relevant at the level of the COREPER [Committee of the Permanent Representatives of the Governments of the Member States to the European Union] meetings and the Council working parties that work on legislative proposals and prepare those for the ministers. That is a good forum to reach out and present our findings to our stakeholders in the Member States.'

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... it is important to be more heard, to become more relevant at the level of the COREPER [...] meetings and the Council working parties...

He points out that his colleagues in the ECA, and he himself, have had good experiences presenting ECA findings in preparatory bodies in the Council. 'Take again this special report on Erasmus+. When I presented the report's findings to the Council's working party for education issues, it met with great interest and it instigated a fruitful discussion with the participation of our auditee, the Commission, and a number of Member States. There our audit work can serve the development of better policies and legislation directly.' He concludes that, in the end, the impact on the practical level is what matters most. 'So I think we are on the right track towards having an impact in the Council, but that there is still a lot of work to do to increase our presence and take-up at the Council.'

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... there is still a lot of work to do to increase our presence and take-up at the Council.

He adds that high-level Council committees offer another opportunity to communicate to the community of representatives from the Member States. 'We managed to put a number of important issues on the table of different Council committees, which helped to gain support for our agenda. A good example of this is the Memorandum of Understanding that was signed recently between the European Central Bank (ECB) and the ECA on access to documents during audits of the ECB. The negotiation process was complicated and ECA appearances in the Council's Financial Services Committee were crucial to achieving the agreement.'

### Fine tuning the ECA's outreach activities

What can the ECA do better when trying to find the right audience among its institutional stakeholders? Rimantas Šadžius thinks that the ECA should gear its presentations to the different types of audience, depending on what their interest is. 'When presenting our audit findings to assist the legislative process, we have to keep in mind that our audiences do not always need all the details of a special report, but are rather interested in certain aspects of our findings. Therefore, I think we should be more selective in what we present to who, when and in which forum.' His advice to any ECA colleague who presents audit work, be it an ECA Member or an auditor, is: 'Focus on what would be relevant for that specific audience.'

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... we should be more selective in what we present to who, when and in which forum.

For Rimantas Šadžius it is clear that the ECA's grasp of the necessity of this approach is improving. 'But it is just as important that our stakeholders are increasingly picking and choosing, not always having to take on board the integral findings of ECA audits, but

using those aspects of one or more audit reports that serve their work best.' He thinks that, following this trend, the ECA needs to communicate more about crosscutting aspects dealt with in a number of reports, so that they can be picked up easily. This is an area where we can still make ground towards the Council.'

### **Positive outlook**

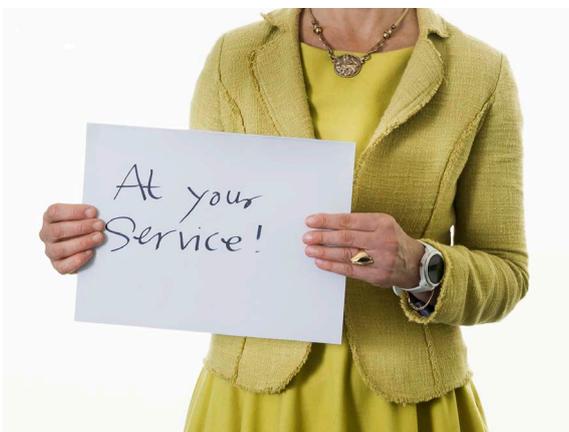
Rimantas Šadžius underlines that it is obviously up to the individual EP committees or Council parties to decide if and how ECA representatives may present their work in person. 'We are not part of the legislative process, so it is really up to our stakeholders to decide if they need us to make a presentation and to amplify the findings, conclusions and recommendations from our audit reports. We do not necessarily have to be there in person to put in our two cents.'

Overall, Rimantas Šadžius concludes that the ECA is appearing more and more on the radar of its institutional stakeholders. 'I deduce this for example from the fact that both the EP and the Council frequently take up recommendations that have been made in ECA special reports. So even if we are not participating in the actual legislative process – and by no means in a formal way – our work is being given ever greater consideration during the drafting of the final legislative act.' In his view, the question of whether the ECA is invited to the Council or Parliament is not even that important, 'As long as our work is on the table and taken into consideration when they discuss their position on a legislative proposal.'

# ECA awareness campaign – the EU’s auditors at your service

By Helena Piron Mäki-Korvela, Directorate of the Presidency

Following the European Parliament elections, the ECA decided to step up its communication efforts with MEPs and their staff. This includes an awareness campaign about what the ECA does and how it can help the Parliament with its scrutiny of EU policies and programmes and possible new legislative initiatives. Helena Piron, the ECA’s senior institutional relations officer, provides an insight into the various initiatives the Court has taken to reach out to the new Parliament.



## Getting in touch with the Members of the newly elected European Parliament

Following the May 2019 elections to the European Parliament (EP), the ECA decided to carry out an awareness campaign to introduce our institution and its work to the newly elected Members of the European Parliament (MEPs) and their staff. The key message that we – as the EU’s external auditor – wish to convey through this campaign is that we can help MEPs to monitor not only the achievement of EU policy objectives but also the state of the EU’s finances.

Our campaign has three main components: first, over the last couple of months, we have been cooperating closely with our colleagues at the European Parliament to organise a series of workshops for staff – entitled *Meet the EU auditors* – on how both institutions work; second, in October 2019, we also launched a Publications Portal, a virtual application to make it easier to find ECA reports by relevant policy field and country visited (see also page x); and third, this edition of the ECA Journal, which deals to a large extent with various aspects of cooperation between the EP and the ECA.

### *Meet the EU auditors workshop*

The first ECA workshop took place in Brussels during the EP election break in May. In the course of an afternoon, some of our auditors discussed key aspects of the ECA’s approach to performance auditing with colleagues from seven EP committees and relevant policy departments that deal with internal policies. Andreas Bolkart from the Directorate of the Presidency detailed our role as external auditor and explained the process for selecting audit topics, based on the ECA’s strategy.

Subsequently, ECA auditors and experienced heads of task Els Brems and Fernando Pascual Gil shared their experience, from planning performance audits and audit fieldwork to drafting, fact clearance and adopting and publishing reports. They shared their insights into the detailed work involved by providing practical examples of various cross-policy audits, how we use different methods to audit performance, how we access and collect audit evidence and analyse data, and how we confirm our audit findings with auditees. They also gave examples of how we use the results of our analysis in published reports and how this impacts EU financial management and EU legislation in different policy areas, such as climate and the environment, agriculture and rural development, transport and energy.

**Figure 1 - Audit workflow**



An ECA compliance audit can, of course, lead to financial consequences, such as a financial correction being imposed on a Member State if our auditors detect frequent and serious infringements of public procurement rules. It is less obvious how our performance audits can lead to changes. During the workshops, we discussed several examples of how this is possible at any point between the time an audit starts until the resulting report is followed up a few years after publication. For instance, our special reports on Leader (SR 5/2010) and Seaports (SR 4/2012) have led to changes in the relevant legislation, while our special reports on Maritime Transport (SR 23/2015) and Marco Polo (SR 3/2013) have led to changes in the allocation of funds from the EU budget.

We also presented the various aspects of day-to-day cooperation between our institutions, and the increasing use of the ECA's expertise by specialised committees. EP colleagues from a number of committees were particularly interested in hearing how we select and define the scope of our audit topics. They also wanted to know more about the role of the ECA's Members in the audit process, how the ECA's auditors interact with its auditees – in particular the Commission – when carrying out fieldwork, and how the ECA clears facts with its auditees when finalising its reports.

### Workshop at the ECA on how the EP works

In June 2019, the information campaign also gave ECA staff an opportunity to learn more about the EP. At a workshop held in Luxembourg for ECA staff, Fabrizio Capogrosso (from former EP President Tajani's private office) and Edouard Dirrig (from ECA President Lehne's private office) shared their insights into the way the European Parliament works and its recent elections. In particular, they explained the internal organisation of the Parliament with its new political groups and various formations. This session showed that a good understanding of the EP's internal workings is essential for finding the most useful forums and the best timing for our contribution to the EP's work as EU legislator.

In September 2019, at the request of the EP's Budgetary Control Committee (CONT), we held a two-day workshop on performance auditing in Brussels that was attended by 25 colleagues from CONT, other committees and political advisors. The same month, another one-day workshop was held on the methodology underlying our Statement of Assurance. This was of particular interest for those CONT colleagues working with

the annual discharge process across the EP's various committees. Participating EP colleagues very much appreciated these opportunities for knowledge sharing with our highly experienced auditors. It also made them aware of the workload that lies behind every ECA report.

**More workshops to come shortly**

In autumn 2019, we also intend to hold additional workshops for MEPs' assistants and political advisors with a focus on how they can use our audit work in their own daily work. First of such information session was held at the EPRS Library in Brussels end of September to an audience of 25 EP staff. Similarly, at the end of the year, colleagues from various EP Committees will come to the ECA in Luxembourg to share their insights with our staff into the detailed workings of specific EP Committees.

The main idea is that greater understanding of each other's approaches and practices will facilitate and enhance cooperation with the new European Parliament. The ultimate goal – as also reflected in the ECA's strategy for 2018-2020 – is to improve the use of the EU budget and EU policy making for the benefit of the EU's citizens. This is clearly a strategic goal that our two institutions have in common.

# First meeting of the European Parliament's Budgetary Control Committee – a fresh new start

By Jean-François Hynderick, Directorate of the Presidency



From left to right: Evelyn Waldherr, CONT Secretariat, and CONT chair Monika Hohlmeier

Source: European Parliament

The European Parliament (EP) has a natural partner in the ECA when it comes to providing independent, reliable information on what happens to EU funds and the effects of EU policies and regulations. Within the EP, the Budgetary Control Committee (CONT) plays a key role when it comes to discussing ECA reports and following up their conclusions and recommendations. With a newly elected EP in place, the CONT and an ECA delegation of two Members and a director recently held an initial meeting to exchange views. Here, institutional relations officer Jean-François Hynderick offers an insight into this and reveals some of the priorities indicated by CONT members.

## Mutual introductions

On 24 July 2019, ECA Members Henri Grethen and Lazaros Lazarou, together with Martin Weber, ECA Director, went to Brussels to introduce the Court to a newly formed European Parliament. This meeting allowed the ECA to present its role and methodology to the newly elected Members of the European Parliament, and more specifically the EP's Budgetary Control Committee (CONT).

The ECA delegation was received by newly elected CONT chair Monika Hohlmeier (EPP) and three of the vice-chairs present on the day: Martina Dlabajová (Renew Europe), Tamás Deutsch (EPP), and Caterina Chinnici (S&D).



From left to right: Martin Weber, ECA Director, and Henri Grethen and Lazaros Lazarou, ECA Members

Source: European Parliament

First, Henri Grethen introduced the ECA and its role and mission, and Lazaros Lazarou outlined the forthcoming 2018 Annual Report and its presentation to CONT on 8 October 2019. He also evoked the ECA's strategic decision to move towards an attestation model for its statement of assurance. Martin Weber then presented information on the ECA's role and approach, highlighting the cooperation with CONT and the European Parliament, the ECA's key stakeholder, to help with the increasingly complicated challenges the European Parliament faces.

**Box 1 – ECA supports CONT in its work**

The members of the Budgetary Control Committee play a crucial role in ensuring that the European funds (around €157 billion each year) are spent efficiently, effectively, according to the rules, and in the interests of the Union's 500 million citizens. As the Union's external auditor, the ECA helps CONT with that difficult task, providing objective information as an independent expert institution.

The ECA has a mandate to audit and access information at EU level and Member State level, and indeed across the world regarding EU funds and the application of EU rules. Unlike some of the Member States' national audit institutions, the ECA cannot penalise a lack of compliance with EU rules. Instead, it warns of risks, provides assurance, and offers guidance. By ensuring transparency, the ECA also helps to maintain citizens' trust in the EU.

The ECA's findings, conclusions and recommendations can help CONT members and members of specialised committees in the European Parliament and Commission to take the necessary decisions to address the shortcomings and weaknesses found. This means that the Union's policies and programmes can deliver better results and its financial interests are protected. In this respect, the ECA's work may have political consequences.

**Initial identification of CONT priorities for the EP's IXth legislative term**

Based on her experience from the previous legislative term, Ms Dlabajová recommended that her MEP colleagues work with the ECA, referring to 'a great cooperation during the last 5 years.' She emphasised that the ECA was always available to exchange information.

Martina Dlabajová and her colleagues Olivier Chastel (Renew Europe), Tomáš Zdechovský (EPP) and Joachim Kuhs (I&D) welcomed the ECA's focus on performance and said that their priorities for cooperation with the ECA over the next five years were:

- identifying fraud and conflicts of interests;
- indicators and a focus on EU added value; and
- a shorter discharge procedure for the ECA annual report (preferably with completion in the year following the end of the relevant calendar year).

Overall, this was a very productive and informative start to the EP's IXth legislative term.

# These former politicians are still working to improve the world of politics!

## Interview with Hannu Takkula and Annemie Turtelboom, ECA Members

By Derek Meijers and Gaston Moonen



ECA Members Hannu Takkula and Annemie Turtelboom

Thirteen out of the 28 current ECA Members have been parliamentarians themselves, either at Member State or EU level, or both. This certainly helps them to understand what (new) MEPs might need and expect from an audit institution. We spoke with two Members who joined the ECA in 2018: Hannu Takkula from Finland (22 years of parliamentary experience, of which 13 years as an MEP) and Annemie Turtelboom, from Belgium (six years of parliamentary experience and over eight years as minister). They identify some key differences and similarities with the role they have now and elaborate on how the EP and ECA can benefit from each other's work.

### Recalling their parliamentary days...

Reflecting on what it means to become a parliamentarian, in both professional and personal terms, Annemie Turtelboom vividly recalls what she felt. 'Before I got into politics, I was a teacher of statistics, market research and market economics. Working with students on concrete topics and evaluating them at the end of the year differs vastly from working as an MP, where things are far less predictable. In politics, you have to learn to deal with many unexpected events and external factors that are beyond your control. It took a while for me to adjust to this, especially as first generation university student who did not come from a political family. As it was all new to me, I had to make my own signature. My strategy was to focus and to acquire extensive expertise in particular areas, such as the functioning of the labour market and the pension system, etc. Because having an in-depth knowledge is crucial' Hannu Takkula concurs, underlining that you have to be a 'jack of all trades.' 'Your constituency expects that you know everything about all topics. But how to combine such general outlook with the need to have an in-depth knowledge?' He emphasises that as an MP or MEP it is important to keep an eye on the bigger picture. 'Why were certain solutions chosen, such as the euro, and you

need to have some idea where you would like certain developments to go to.' He agrees though, that you also need to specialise to do a proper job. 'However, keeping an open mind towards the whole picture and developing a good network remains essential, even in today's political situation in the EP where specialisation is tempting to address complex issues.'

Hannu Takkula recalls the atmosphere when he became an MEP in 2004. 'Our main perspective was how we can make a better Europe. But after the 2008 crisis there was an increasing tendency on thinking more on what is good for your country, focusing less on the common benefits. People no longer believed that what was good for Europe was good for your Member State and vice versa.'

Annemie Turtelboom adds that it is critical to bring your focus to the level at which you are working. 'Once you have a responsibility at a certain level – as we do now as ECA Members – your main focus needs to be on that level. In our case on, this focus is on the EU level. We are there to protect the interests of the level we are responsible for.' She therefore deems it evident that as an MEP your focus will be on how you can improve the EU with your own ideas. 'For the sake of a better Union! For me it is clear that the ecosystem of the EU and what I can do as an ECA Member to make this ecosystem work better is my responsibility. Similarly, when I was elected as a member of the Belgium federal parliament I worked for that ecosystem.'

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Once you have a responsibility at a certain level [...] your main focus needs to be on that level.

### ...and working now as ECA Member

When comparing their previous roles to their current roles, both ECA Members agree wholeheartedly that there is so much more time to look at issues in-depth. Hannu Takkula recalls that as an MEP he started almost every day looking at the news and thinking how to react on different topics. 'This included being on social media. However now I feel very relaxed, I feel much less need to get on social media, it is actually quite some time ago that I have put something on it.'

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... I feel much less need to get on social media...

For Annemie Turtelboom these two elements are also key differences. 'Due to social media you are much more aware of and occupied with how you behave, as member of a political party, as an MP, as an MEP, as a minister. And it is rather short-term related. What I really like about my role as an ECA member is that I can dive deeper into a topic and have time to reflect on it.' She points out that this reflection also serves to meet the many quality criteria one has to fulfil as audit institution. 'You need to be absolutely sure that what you write is factually correct.' Reflecting further, she raises another issue: 'The main difference between being in parliament or in the ECA is that we are close to politics...but we are not in politics!'

“  
What I really like about my role as an ECA member is that I can dive deeper into a topic...

Hannu Takkula sees similarities between working as a rapporteur at the EP and being 'reporting Member in the ECA - the Member responsible for a specific audit – at the ECA. 'In the EP you have to go deeper in some issues of the legislation you want to change or draft. There are some similarities but, as Annemie said, we can go deeper into issues and facts are facts. In parliament there are more political considerations when drafting your report, you may be inclined to use some facts more than others - that is part of politics.' He sees similarities with the PhD project he worked on a few years ago: 'Addressing issues deeper, based on facts and with thorough analysis, we make recommendations. And because of that we hope people will follow these recommendations.'

Annemie Turtelboom considers this an important indicator. 'Most of our recommendations are followed.' Reflecting further on her time in politics, she adds 'As a politician, everything that is unexpected jumps into your agenda. Certainly as a minister, you do not control it. You have a full day, with an agenda, but if there is a crisis, it changes completely. And crises do occur. Here, we also have a lot of work, but we have

more control over our agenda.' With some relief, she says she can actually plan: 'I can say now, this afternoon I will be reading this or that file for two hours. And it gives... a certain rest.'

### Relations with citizens

Both ECA Members see a difference in their relations with citizens compared to their previous professional lives. Annemie Turtelboom considers the fact that the ECA is involved only after the decision-making process as an important reason for this. When you are in politics, citizens want to influence the policy-making itself. As an auditor you are a step after that: the policy is made and has been put into practice.' She adds that subsequently the auditors come in and check whether this policy is working well, if the financial aspects were carried out properly, and whether everything was legally compliant. 'You are in a feed-back situation. But as a politician you explain why you took a certain decision or try to listen – "they are right, there is a problem, we should do something to improve the legislation."'

She points out that audit institutions also have to listen to citizens. 'Last year I visited the Austrian supreme audit institution. It turns out that they actively ask citizens for audit ideas. This way they gather many ideas, some of which audit institutions may have already reported on without citizens being aware thereof. And for other topics or reports an audit institution can re-focus the audit scope and take the citizens' input on board.' She believes that this interaction is important and a good way forward, given that citizens also want to know what happens to their taxes and what legislation is being adopted. 'Certainly in this world where fake news is spreading quickly an audit institution can have a crucial role for people who are really interested.' Here, she also sees a good argument for the ECA to be active on social media. 'Fake news is often coming via social media. The more important that we also use social media platforms to say: 'This or that is the reality.'

“ ... in this world where fake news is spreading quickly an audit institution can have a crucial role... ”

Laughingly agreeing with this, Hannu Takkula adds an analogy: 'You can say that politicians are working as an emergency department in the hospital – things are coming in and they have to decide where they send you and who should treat you. We - the auditors – may be the pathologists: we check why some patients die, and for which reasons: what went wrong.'

### Perception of accountability issues

As ECA Members, accountability for actions implemented is clearly on their radar. Was this also the case when they were working in parliament? Hannu Takkula feels that many MEPs had and have a focus on legislation. 'And this is important! But there is of course also the accountability task of parliament, raising questions, also during the discharge procedure.' He finds the 'why' important here. 'Asking why and what plans there are to change the things, what are the action plans to move the things forward.' Another point he found and finds important is that legislation is properly drafted, including having clear accountability requirements written into it.

“ [For MEPs during the discharge procedure] Asking why and what plans there are to change the things... ”

Annemie Turtelboom brings up some different perspectives, having been in the auditee seat herself as a minister. 'Clearly your relationship to accountability, and to audit specifically, is different as an MP or as a minister. As an MP you will normally like the reports presented by a supreme audit institution: they are food for thought.' She refers to facts and figures, the availability of data, recommendations, etc. 'In-depth material which you as MP would have difficulty to obtain. You can try to obtain it by asking detailed and very smart questions to ministers, but most of the time they will answer what they want to answer.'

Having been a minister, with various portfolios, she also knows what it is like to be the auditee. 'And this actually helps me a lot now in my role at the ECA. Quite often as auditee you found that the audit institution asked for too much information, the timing was sometimes wrong and tight, your time was limited, you try to postpone things, etc. So I can relate to some auditees' reaction – be it the European Commission or the European Investment Bank - I now sometimes see as ECA Member. Of course, we are asking for a lot of data and other information. But that's part of a healthy modern democracy and people have to respect it!' With a laugh, she adds 'My experience as minister comes in handy now. After all, poachers make the best gamekeepers.'

### Relations with key stakeholders

From an accountability perspective, the two ECA Members feel that ECA reports are taken more and more to heart by the other EU institutions. Annemie Turtelboom: 'Our reports are clearly wanted and read by parliament and by the Council.' Having been at the ECA for over a year, she finds that the Council is also showing more interest. She gives an example regarding the opinion published by the ECA on the rule of law, for which she was the reporting ECA Member. 'Recently I was in Helsinki in the framework of a conference on the rule of law. There, I had meetings with the Minister of European Affairs and the Minister of Justice. They both knew about our opinion and were also aware of our five recommendations. And these were all taken on board by the European Parliament, which is key for us.'

Both ECA Members underline the importance of the ECA as an independent audit institution. Annemie Turtelboom says: 'But we do not live in a bubble. Which means that we also have to write relevant reports, not only relevant for us but also for the outside world.' Hannu Takkula adds: 'And we need to be clear in our recommendations to the EP and the Council so they can do something with these recommendations.'

“ ... we do not live in a bubble. Which means that we also have to write relevant reports...

Besides the need for reports to be practical, Annemie Turtelboom emphasises that the timing needs to be right. 'It is important that you present it at the right moment in the process. For example, our report on future commitments, the so-called 'RAL' – Reste à liquider,' came out during the discharge procedure.' She considers the European Parliament and Council's decision-making process to be an important element that should be taken into account in the ECA's work planning. 'We need to follow carefully what is happening in the EP and their committees. And in the Council and the priorities of the respective Council presidencies. 'Why is the rule of law opinion relevant? Also because it is a priority of the Finnish Presidency.'

Another element she brings up, which in her view is an important aspect of relations with the EP, is the fact that there is a budget committee and a budgetary control committee. 'Something I really like! In Belgium we focus much more on the budget and much less on how the budget was spent. Having two different pillars is a good thing to keep a strong focus on what was done with the budget in practice. Hannu Takkula adds that this practice of having two committees is rather common in several Member States, including in Finland.

While they consider relations with the EP Budgetary Control Committee (CONT) as crucial, the two ECA Members welcome and indeed advocate further intensification of relations with the EP's specialised committees. 'And one does not exclude the other,' Annemie Turtelboom adds, 'in the sense that our annual reports and performance findings can be relevant for the discharge procedure, but our performance findings can be taken up by specialised committees.' Referring to the special report on public consultation that the ECA published recently (see also page 81), she notes: 'If we make a report on public consultation in EU law-making, our recommendations in that report can be quite relevant for the petitions committee in the EP.'

Hannu Takkula refers to a report he is working on now in relation to EU aid to Morocco, which he hopes will be discussed not only in CONT but also in the Committee on

Development (DEVE) and also in the delegations dealing with relations with Maghreb countries at some point. He recalls that when he was a member of CONT, issues were discussed, for example concerning agriculture. ‘No one from the Committee on Agriculture would be present, with less chance of recommendations being taken up. We have to go to the specialised committees and even try to find those key players in these committees.’

“ ... We have to go to the specialised committees and even try to find those key players in these committees.

Annemie Turtelboom shares a recent experience of how a similar caseworked out in practice: ‘The opinion on the rule of law did not come to the specialised committee. But two rapporteurs for the report asked me to give an informal briefing. Which is what we do as well. So if at a certain moment there is a new MEP who wants to know more about a certain topic, we are happy to explain our reports, and we are happy to explain more on what we have written and why. After all, these reports present the core of our work, providing food for thought for decision and policy-makers!’

Both Members point out that it is important for relations with, for example, the European Parliament to be a two-way street. Annemie Turtelboom explains: ‘Of course we are independent but as I said we do not live in a bubble. We encourage MEPs to make suggestions, bring forward ideas for topics for our special reports, and get them to us via your committees. Many of the topics in our work programme are based on suggestions from the EP and it is important that we get such input. MEPs may have specific views on societal issues and we need such interaction between our institutions. We should not sit in our ivory towers under the pretext of independence. Our work remains independent, but suggestions for future audit topics can come from elsewhere.’

“ We encourage MEPs to make suggestions, bring forward ideas for topics for our special reports, and get them to us via your committees.

### Looking beyond EU finances

Most people mainly associate the ECA with auditing EU finances. Both ECA Members think, however, that what the ECA does goes far beyond this. Annemie Turtelboom brings up the fact that the ECA often looks at added-value, mainly through its special reports. ‘And rightly so. Let’s say that if I install a solar plant in the north of Europe, where there is half the time almost no sun, I may be fully compliant with all the regulations, but it may still not be the best place to do this. And such information on performance will be most relevant for specialised committees in the EP, and also the Council.’ One question that she considers important for the ECA is: was it the right decision to invest money in this or that. ‘And like us this is what many supreme audit institutions in Europe do, having a broader scope than let’s say 40 years ago. And I hope many new MEPs will realise that we do a lot more than only looking at financial aspects. Moreover, we are also advocates of citizens concerns.’

“ ... I hope many new MEPs will realise that we do a lot more than only looking at financial aspects.

Hannu Takkula recalls when he started as an MEP in 2004. ‘Then, like for many others, the ECA was the institution that looked at the EU budget and its implementation, and that everything goes according to the EU treaties and regulations.’ He frankly admits - with a laugh - that during his first two years as an MEP he did not really look at the ECA’s work. ‘But then, in 2006 Olavi Ala Nissilä became ECA Member. He came to Brussels he invited all the Finnish MEPs and explained to us what the ECA is doing. From that time onwards I understood that we can call Olavi and ask questions about any policy area and what the ECA’s views are.’ He explains that he will do the same for the Finnish MEPs this autumn, after the publication of the ECA’s 2018 Annual Report. ‘I think this is the way, organise once or twice a year a little event with them – you know, MEPs are always hungry – and have some discussions, also getting their viewpoints. This is how I got to know the ECA and my predecessor Ville Itälä did it as well. I think it is a good practice.’

Annemie Turtelboom adds that it is extremely important for the ECA to explain what it is doing, preferably with concrete examples. 'I collect information on all ECA reports where Belgium was in the audit scope.' She explains it was very useful to have such information when presenting the ECA annual reports and also special reports in her home country. 'We may be on the other side of the table, but it is important that our conclusions and recommendations reach those who are in the driving seat. They decide of course whether to follow-up or not, that is not our role anymore.'

“ ... it is important that our conclusions and recommendations reach those who are in the driving seat.

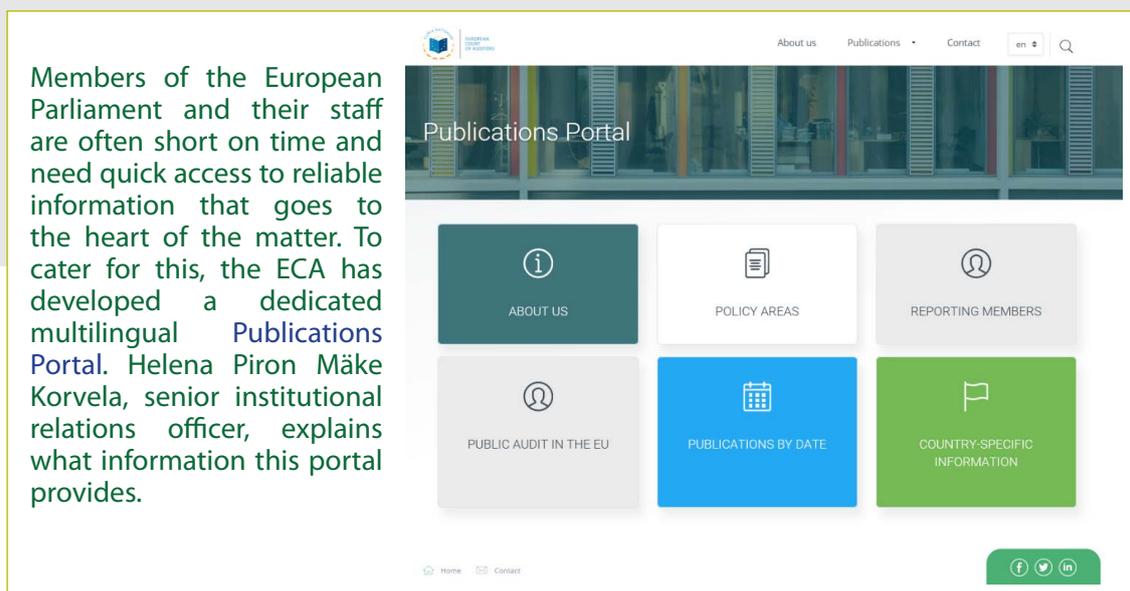
She underlines how important it is for the ECA, for both ECA Members and staff, to be available for policy-makers. 'To explain what we are doing, how we are working, how we plan and execute our audit, write our reports, how we decide on our audit work programme, why we take certain audits on board and others not.' She refers to the meeting she hosted with the Finance Committee of the Belgian Parliament and the Belgian SAI. 'They came and I explained what we are doing. After all, Belgium and the Union, we are in the same boat!' In this respect, she points out how important it is that the ECA keeps on communicating about its products. 'For this purpose I am also on social media, but I use my account only for professional reasons. I think we should use all possible social media channels to talk about our work.'

When asked what the two former parliamentarians would suggest to MEPs, recently arrived in Brussels, both agree that getting good reliable information is essential. As is using it. Annemie Turtelboom adds 'I would say: check all the press releases of the ECA, regularly, and if there are topics that you as an MEP are working on, then read the reports! Read the executive summary, the conclusions and the recommendations.' She thinks it will help MEPs on the accountability side but also in their legislative tasks. 'Read, read, read and follow us on Twitter, Facebook, Instagram, etc. And if you have read the report and you think you need more information – you can always contact us here at the ECA.'

“ [to MEPs]... check all the press releases of the ECA, regularly...

# ECA Publications Portal – a new gateway for quick access to ECA audits and reviews

By Helena Piron Mäki-Korvela, Directorate of the Presidency



Members of the European Parliament and their staff are often short on time and need quick access to reliable information that goes to the heart of the matter. To cater for this, the ECA has developed a dedicated multilingual **Publications Portal**. Helena Piron Mäki Korvela, senior institutional relations officer, explains what information this portal provides.

## Launch of a dedicated multilingual Publications Portal in September 2019

The newly launched ECA Publications Portal aims to facilitate the work of Members of the new European Parliament by providing quick access to our work. Through this multilingual portal we offer easy and user-friendly access to our reports and reviews, providing the facts and figures that MEPs can use to assess whether EU legislation, programmes and policies are working on the ground, including in their country.

With this virtual application, it is possible to do a quick search for any relevant ECA report, based on simple key words, on your portable phone, iPad or computer. All ECA reports and reviews of the past few years can be accessed according to:

- **policy area**, for easy linkage to the work of each European Parliament Committee;
- **geographic area**, by countries visited per particular ECA report, including non-EU countries;
- **publications by date**, including our latest indicative timetable of upcoming reports for the next few months to come;
- **reporting Member** responsible for specific audit tasks.

In addition, the **Public Audit in the EU** section contains a wealth of information on the 29 supreme audit institutions of the EU and its Member States, including their publications.

## Dedicated to MEPs, but open access to everyone

Apart from general information about us, on our role and work, we have also opened a dedicated hotline for MEPs:



[ECA-MEP@eca.europa.eu](mailto:ECA-MEP@eca.europa.eu)

The virtual app giving access to our portal has been installed by the European Parliament on the iPads of all MEPs and can be identified by the icon [ECA4MEP](#):

But, obviously, the virtual app can also be used by anyone interested in the work of the ECA, simply by using this link: <https://www.eca.europa.eu/sites/ep/en/Pages/home.aspx>. Go ahead and test it in any of our 23 working languages.

# A determined CONT, counting on the in-depth knowledge of the ECA

## Interview with Monika Hohlmeier, MEP and chair of the EP Budgetary Control Committee

By Gaston Moonen



Source: EP

Monika Hohlmeier chairing a CONT meeting in the EP

The election of a new European Parliament has brought many new faces to the parliamentary committees, including the Budgetary Control Committee (CONT). But Monika Hohlmeier, the new CONT chair, is by no means a newcomer. She is starting her third term as an MEP, having been involved before in budgetary issues as a member and vice-chair of the Budget Committee and substitute member of CONT. She is clearly looking forward to cooperating with the other CONT members to ensure more accountability on EU actions, with the ECA as an important partner in this undertaking.

### A united CONT looking beyond compliance

A new parliament also means many changes. Monika Hohlmeier, MEP since 2009, was elected as the new chair of the Budgetary Control Committee (CONT) in July 2019. 'The results of this election mean that 62% of the Members of the European Parliament (MEPs) are new. And not every new member is already experienced in how parliaments work. They may have visionary ideas, but on the other hand, there are also restrictions, for example relating to existing laws or the available budgetary appropriations.' She goes on to say that the EP needs to serve the interest of all EU citizens, not just those of one Member State. 'And to think big, to think really European, for 28 Member States,

or even for more countries, all contributing to the EU budget and programmes, that is something new MEPs sometimes need to get accustomed to.'

She brings up another difference with parliamentary activities in Member States. 'In the national context, party-political controversies are on the agenda almost every day, also in the committees in charge of budgetary control. This is generally due to the fact that these committees scrutinise the government (and their chairs are often from the opposition parties). But the set-up is different at the EP, also because the Commission is not really a government. As a result, in the CONT, I have the impression that we have very good cooperation between the different political groups. I do not see the typical political debate and there is a general interest in focusing on the big issues.'

“... we have very good cooperation between the different political groups.

The proof of the pudding is in the eating and issues might pop up during discussions, for example, of the more detailed findings of the ECA's 2018 Annual Report, which was presented to the CONT on 8 October 2019. But here, too, the CONT chair is optimistic about how united she and her colleagues will be. 'In the various political groups I really see a wish to cooperate when it comes to budgetary control. Of course, if the debate explicitly concerns one Member State, that may not be easy for an MEP, that is understandable.' Monika Hohlmeier underlines how important it is for CONT members to be neutral, objective, transparent, but also very outspoken. 'If there is a misuse of money, the Commission needs to act. They may need to stop making certain payments, ask Member States to pay back or even impose fines. That is what our citizens expect.'

Not surprisingly, as the new CONT chair, Monika Hohlmeier believes that her committee has an important role to play. 'EU citizens want to see that the budget is spent properly, that there is real EU added value, that EU policies and programmes are sustainable and that they achieve their intended results.' And there is still room for improvement: 'There is still a way to go.'

### Tackling the complexity of rules...and enhancing cross-border cooperation

Monika Hohlmeier has a clear view of her role as CONT chair. 'If we find problems, in Member States, in the Commission, then we have to tackle the issue. As chair of the committee I have a responsibility to ensure that the CONT stays united on financial management issues.' She points out that she is not necessarily a big friend of naming and shaming. 'Only if it is necessary. If a Member State is not moving at all, is disrespecting the rule of law on purpose, repeatedly, then of course it needs to become public. But if there are smaller errors, not done on purpose, but because of the complexity of the rules, then it is not for me to do naming and shaming.'

Monika Hohlmeier is also concerned that many of the errors found are made by small and medium-sized enterprises, just because they do not know or do not understand the applicable rules. She explains that in such cases the EU, including the CONT, has to do structural work to take away or at least reduce the complexity. 'Actually, to follow the line that the ECA has given us for years, which, in my view, is a very rational line: to address the underlying issues by simplifying the applicable rules.'

“... address the underlying issues by simplifying the applicable rules.

Another issue she considers as important relates to the revenue side of the EU budget. 'As new CONT chair I asked the coordinators in the committee to focus on certain issues that already appeared in the last legislature.' Examples are VAT fraud and deficiencies in the customs system. 'For years the Union has been losing billions and billions of euros. In this field, cross-border cooperation is simply not working.' As an example, she refers to the low frequency of custom controls in the Member States. 'Too often, only 0,3, 0,5 or 1,2% of the imports are checked. So the chance of imported goods not being selected

for any checks or controls is very high. And even when there are checks, they are not always very effective.' She was pleased to see that her proposal was fully supported in the last coordinators meeting. 'Because this an issue of common interest. We have to identify where cross-border fraud exists, to know where there is market turbulence because the applicable rules are not being followed.'

### In depth knowledge from its audits in Member States...the ECA's key selling point

To get to the heart of such issues Monika Hohlmeier considers ECA reports to be of high value for MEPs in general, and certainly for CONT members. 'In many ECA reports I find new and relevant information about the kind of procedures, about possible gaps, about shortcomings in how rules are implemented.'

“... In many ECA reports I find new and relevant information...

The ECA can find this out because if it is auditing certain programmes, in certain Member States, the ECA is on the spot. For us, as parliamentarians, it is often not possible to be on the spot. And we also do not have the time to do a thorough review, a thorough check.' She adds: 'For me the ECA reports are particularly relevant because they show us where procedures are not working, where national authorities have deficiencies and where we can improve our work.' She believes in depth knowledge from its audits in Member States is the ECA's key selling point.

### Changed focus of CONT

In this context, Monika Hohlmeier also underlines that the CONT's interests go beyond financial and compliance issues. She refers to questions addressed by the ECA, such as whether a project is sustainable, is really performing well, what the indicators for good performance are, and whether the indicators chosen by the Commission are of good quality. 'And I think what the ECA is doing in this respect is very valuable. Actually, the CONT has changed its own role alongside the ECA in this respect. And I think this is very positive.'

She underlines that producing more performance reports, even in areas where EU policies and programmes are not directly linked to significant EU outlays, is an absolute must. 'The only thing we have to be careful of, the ECA has to be careful of, is entering into political debate. Because this would damage the role of the ECA. Because political debate is, as such, outside the audit function and needs to be left to the parliaments, be it at national or EU level.'

“... political debate is, as such, outside the audit function and needs to be left to the parliaments...

Monika Hohlmeier also notes that ECA reports have become more relevant for the specialised committees in the EP. 'Clearly, a considerable number of ECA reports now fall within the domain of specialised committees and should be presented there. However, I think that the CONT should always be invited to participate. And I greatly appreciate the guarantee from the ECA that the CONT will always be first to choose which ECA special reports should be presented in the CONT, with an invitation of course to the specialised committees.'

### If you have any questions, just ask

Finally the CONT chair has a piece of advice for her colleagues, be it newcomers or experienced ones. 'I encourage all CONT members to seek dialogue with the ECA. To clarify questions, get information. Also, taking the role of shadow rapporteur on an ECA special report is a great opportunity for new MEPs to gain a better understanding of the ECA and its work.'

“I encourage all CONT members to seek dialogue with the ECA.

# The IX European Parliament's legislature (2019-2024) starts with many new faces in the Budgetary Control Committee

By María-Luisa Sánchez-Barrueco, University of Deusto, and Paul Stephenson, Maastricht University



Source: European Parliament

The chair and vice chairs of the current CONT, from left to right: Martina DLABAJOVÁ, Caterina Chinnici, Monika Hohlmeier (chair), Tamás Deutsch, Isabel GARCÍA MUÑOZ.

In the May 2019 European elections, over 450 of the 751 Members of the European Parliament were newly elected. The EP's Budgetary Control Committee (CONT) – which is the ECA's main interlocutor in the EP – is no exception as regards this significant turnover. María-Luisa Sánchez-Barrueco,<sup>1</sup> Senior Lecturer in Law at the Deusto Law School in Bilbao, and Paul Stephenson, Assistant Professor at the Faculty of Arts and Social Sciences at Maastricht University,<sup>2</sup> have taken a closer look at the role, activities and composition of the CONT of the IX EP legislature.

## Power to grant discharge

Since 1977, following the 1975 Brussels Treaty, the European Parliament (EP) has been vested with the power to grant discharge to the Commission, although the final decision is taken upon a non-binding Council recommendation. Armed with its various types of audit reports, the ECA enjoys a privileged audience with these two discharge authorities.

1 She is the author of various publications on the ECA, such as: Sánchez-Barrueco, María-Luisa (2015) 'The Contribution of the European Court of Auditors to EU Financial Accountability in Times of Crisis', *Romanian Journal of European Affairs*, 15(1): 70-85; Sánchez-Barrueco, María-Luisa, *El Tribunal de Cuentas Europeo. La superación de sus limitaciones mediante el principio de colaboración* (Dykinson:2008)

2 His work on the ECA includes: Stephenson, P. (2017) 'The European Parliament's use of the European Court of Auditors' special reports in the scrutiny of EU budgetary performance'. In: De Feo, A. and Laffan, B. (ed.) *Scrutiny of EU Policies: contributions to the workshop organised by the RSCAS*, 27 February 2017, Florence: European University Institute, 44-51. (available free of charge at: <http://cadmus.eui.eu/handle/1814/48867>)

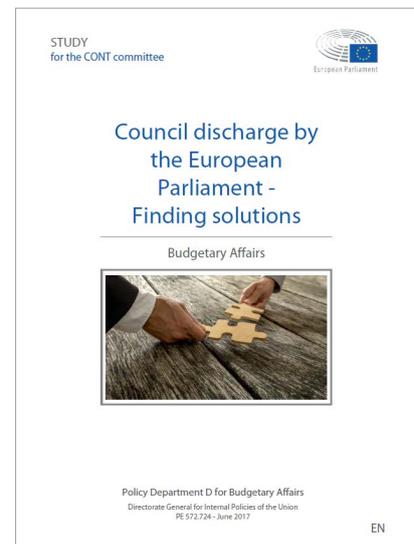
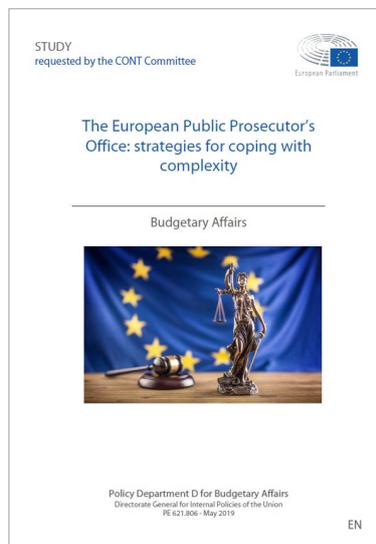
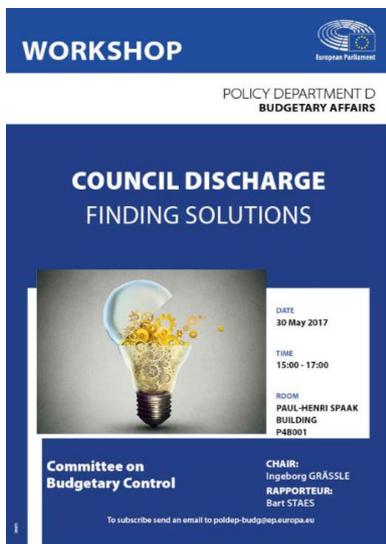
In the European Parliament, the Committee on Budgetary Control (CONT) is responsible for holding the managers of the EU budget to political account. Although over two thirds of the EU budget is managed by the Member States, national or regional authorities are not subject to the political dimension of financial accountability: they cannot be questioned by and are not answerable before the EP. CONT's discharge reports represent the fundamental basis upon which the Parliament's plenary takes the decision to grant discharge. In seeking to carry out its core task, CONT draws on various sources of evidence, including witness accounts, data collected via own initiative control missions, and crucially, the ECA's annual and special reports. When ECA reports are presented to CONT, they are assigned to one or several MEPs for follow-up, leading in most cases to a CONT committee resolution.

Increasingly, ECA special reports and reviews are also presented to other EP Committees. The CONT committee secretariat is fully supported by the EP's Policy Department D, which is continuously involved in the committee's work: attending meetings of CONT coordinators and political group advisors; participating in committee delegations; writing and briefings for hearings and country reports for the delegations; and of course, preparing the briefing for the annual CONT visit to the ECA. In addition, the EP's 'think-tank', the European Parliamentary Research Service (EPRS) plays a role in collecting, digesting and synthesising relevant data sources on behalf of MEPs, providing contributions (briefings) on the individual requests of MEPs.

### Taking stock

The CONT's workload and output has been impressive during the last legislature, as illustrated by the hugely insightful '[Balance Sheet of Activities during the 8<sup>th</sup> Legislative Term \(July 2014 to June 2019\)](#).' Overall, the Committee [adopted](#) 324 reports, 64 opinions and produced 151 working documents, mainly in the context of the discharge procedure. As the reports states (p.3), 'in analysing the performance of the different spending areas, the Committee continued its fruitful cooperation with the Court of auditors and cooperated increasingly with the specialised committees of the Parliament in charge of the relevant policy areas.' Moreover, 'the Committee further intensified the interinstitutional cooperation, notably with OLAF'

As well as the joint meetings held with other standing (policy) committees in the EP to discuss EP special reports, CONT held 18 public hearings, carried out 17 missions across the EU and held 35 hearings in the context of various nomination procedures. In addition, with the support of Policy Department D of the EP, it held 19 workshops and commissioned 25 external studies, including our very own (with Hartmut Aden) on the [establishment of the European Public Prosecutor's Office \(EPPO\)](#).



Source: EP

Examples of workshops organized by the CONT

### **The new look of CONT: leadership, party affiliation, seniority, geographical representation, demographics and gender**

Following the recent European elections in May 2019, a new CONT will now press ahead in its work, dealing extensively with the ECA's audit findings, conclusions and recommendations during the 2019-2024 period. Elections brought about significant changes to the composition of CONT, and taking due account of them might help the ECA in foreseeing what lies ahead, and most notably, in anticipating the different political sensitivities its reports might face.

30 MEPs have been attached to CONT for the IX legislature, although this composition will undergo slight changes if and when Brexit is implemented. As such it is a middle-sized committee, compared with others such as LIBE (68 full members), which has implications in terms of the size of its committee representation whenever the EP negotiates with the Council.

What does the new CONT committee look like? First of all, former CONT chair Ingeborg Gräßle (EPP, from the German CDU) has not been reelected to the EP. She served as MEP for three full parliamentary terms and was always attached to CONT, first as a regular MEP, then coordinator of the EPP group, then CONT chair between 2014 and 2019. Gräßle established a reputation as an independent and vocal advocate for financial accountability. Arguably, she was not the typical EPP politician and did not bite her tongue when it came to delicate issues concerning the management of EU funds at the national level. Some may have sighed in relief to see her go, but certainly not those who advocate greater accountability and transparency of EU institutions. The new CONT chair, Monika Hohlmeier (also EPP, from the Bavarian CSU), follows in Mrs. Gräßle's footsteps. There are also four vice-chairs: Isabel Garcia Munoz (S&D), Caterina Chinnici (S&D), Martina Dlabajova (Renew Europe) and Tamas Deutsch (EPP)..

The renewal of CONT is not limited to its leadership. A figure that strikes the external observer is that 57 of MEPs in CONT (members and substitute members) have been elected for the first time to the European Parliament, which is in line with the overall turnover (453/751). Such a high rate of renewal will surely impact the work of the committee. From those MEPs which had been elected already before the 2019 elections, five MEPs (some 16%) have served for a single previous term (including vice-chairs Chinnici and Dlabajova), around one fifth of them have spent 10 years at the EP (including the new chair Hohlmeier and vice-chair Deutsch), and for two members (the Polish, Czarnecki and the German, Pieper) this is their fourth term – so in terms of institutional memory and assuring continuity in committee practice, one might arguably look at this group of MEPs.

From a geographic perspective, it is quite striking that as many as 13 countries, or nearly half of all Member States, are not actually represented in CONT: Estonia, Slovenia, Luxembourg, Slovakia, Latvia, Lithuania, Malta, Denmark, Sweden, Croatia, Portugal, Greece. This includes several mid-sized Member States. By contrast, other Member States have several CONT members: five MEPs from Germany, four from Italy, three from France, and two from Czech Republic, Romania, Poland and the United Kingdom.

Though there may be substitute members for the committee from these non-represented member states, one must nonetheless ponder whether this is really a desirable composition if we want all soon-to-be 27 Member States to take a keen interest in financial accountability when only half are represented? What does this say about democratic representation? Yes, checks can be made in the plenary – CONT setting the agenda of what the plenary will and won't discuss – but it raises concerns about geographic representation, and as such, given the non-representation of many member states in the committee, about geographic fair spread and the degree to which MEPs of certain Member States are properly engaged in scrutiny, and by extension, informed about financial control and audit within the context of deliberating policy performance. Many Member States without MEPs in CONT are net recipients of large amounts of Structural Funds – and in these cases, who is feeding back directly to their relevant constituencies?

From a demographic perspective, around a fifth of the members are in their 30s and a similar number in their 40s respectively, around 43% in their 50s, and around 13.3% in their 60s. The youngest CONT member is 30 (from the UK, Heaven) and the most senior is 70 years old (from Poland, Legutko). From a gender perspective, the composition of the committee,, with around 37% women, is slightly less balanced as the whole EP (the number of women MEPs increased from 37% to a new 'high' of [41%](#)).

From a political ideology perspective, the current CONT committee faithfully reflects the rather fragmented EP composition that resulted from the 2019 elections. The EPP and S&D are equally represented, with around 20% each, whereas the rest of political groups have around 13% (RENEW, the former ALDE), around 10% (ECR, Greens, I&D) and some 7% (EUL/NGL and non-attached). There was a concern prior to the EP elections that there would be a large increase in the number of MEPs from Eurosceptic parties, and that, their increased numbers would affect the effective functioning of committees but this does not appear to have materialised. CONT's memberships includes three MEPs (French, German, Italian) from the newly formed 'Identity and Democracy' group

### **Implications of MEP origin and office for financial accountability**

From a financial accountability perspective, it is relevant to consider CONT members according to whether or not their state of origin is a net contributor to or net recipient of the EU budget. Taking into account the [figures made available by the Commission on member state contributions](#) as a percentage of GDP, then some 60% of CONT members have been elected in Member States who pay more into the EU budget than they receive. However, this figure must be qualified after looking at the top and bottom ends of the scale. Considering net contributors and recipients in absolute terms, the top tier of net contributors (Germany, UK, France, Italy, Netherlands) make up 20% of CONT, just as for the top tier of net recipients (Portugal, Hungary, Romania, Greece and Poland). Overall, this might seem to be a good indicator that sufficient relevance will be given to ensuring the proper accountability of EU funds.

Another dimension worth looking at is whether the MEPs represent parties in government or in opposition. The balance swings gently towards parties in opposition, with just 43% of CONT members from government parties, perhaps a sign of the shifting political landscape across the EU. How these figures will affect the political stance of MEPs is uncertain at present. In principle, it seems safe to hypothesize that parties in government from net contributing Member States – with a lot at stake financially and politically by way of budgetary transfers to the EU – might be more inclined to impose tougher controls on financial management. In so doing they might come up against their opposition parties who will be even more vociferous when it comes to ensuring there are appropriate controls in place to prevent financial mismanagement and corruption. In this regard, CONT's two MEPs from Romania and the one from Hungary represent the government, whereas the one from Bulgaria opposes it. Let's see how active they are!

If we look at the educational background of CONT members, there is variation in their academic disciplines. MEPs have degrees in business, economics and administration (around 20%), law (around 17%), political science, and communication and journalism (both around 10%). Most CONT members have come to the EP from national politics at national/regional/local level. By way of exception, there is a former European Commissioner (Cretu), a former head of Transparency International, Germany (Freund), and a former public prosecutor from Italy (Chinnici). Of course, any parliament would not be complete without the odd outsider and the CONT committee in the IX Legislature is no exception with both a cabaret artist and a twice-convicted advocate of the legalisation of marijuana.

### **Further institutionalisation to protect the EU's financial interests**

With the newly established EPPO set to be up and running in mid-2020 through differentiated integration (22 Member States only), it's reassuring to know that the committee will have some insight into public prosecution at the national level as the scope of CONT's mandate broadens to take in another new EU body whose work it will need to monitor and scrutinise. Ingeborg Grässle would surely be pleased to see the further institutionalisation of financial control and developments, which should ultimately benefit CONT in its quest to protect the EU's financial interests. A task it has undertaken since its early days as a sub-committee of Budgets, when Heinrich Aigner – then chair the Parliament Budget Committee – pushed in the early 1970s for the establishment of the ECA.

In short, it's an exciting time for the new formation of the CONT committee, with plenty to keep it busy, getting to grips with the latest ECA annual report, but also, over the next few months and beyond 2020, hopefully taking a retrospective look and what the EU budget truly achieved for 2014-2020, and what can be learnt about budgetary spending and financial control mechanisms in order to continue to strengthen financial accountability mechanisms and procedures for 2021-2027.

# Standing for a Union of values, but also a Union that adds value

## Interview with Olivier Chastel, Member of the European Parliament

By Gaston Moonen



Source: Renew Europe Group

Olivier Chastel speaking in the European Parliament in Strasbourg.

With 453 Members of the European Parliament starting their first term, the May 2019 EP elections brought many newcomers to the total of 751 MEPs. Many of these new MEPs bring a lot of enthusiasm, fresh ideas and new experience into the IXth legislature of the EP. One of them is Olivier Chastel, elected as MEP in the Renew Europe Group, who has 20 years of experience as an MP in the Belgian Parliament. He is also a new member of the Budgetary Control Committee (CONT), and in that capacity has already had meetings with ECA representatives. Some questions to this newly elected MEP and CONT member.

### **Belief in a Union of values**

*You have been a member of parliament before for several years, but at national level in Belgium. What made you decide to become a politician at EU level?*

**Olivier Chastel:** Since I started in politics, I have always defended the European project with conviction. I am convinced of the benefit of the European Union for all citizens. I had the opportunity to discover the European process when Belgium held the Presidency of the Council in 2010. It was a real discovery. When the opportunity presented itself, I did not hesitate to put myself forward as a candidate on the European list of the *Mouvement Réformateur*. It is a logical next step for me to defend important issues at a new level of power. It makes sense to debate issues, such as research and development, technological innovation, education, climate change, migration issues, employment and access to employment for young people, and fundamental rights, at European level and we have a duty to reach agreement on them.

*Is there a particular promise you made to your constituents, your voters, when you got on the EP ballot paper?*

**Olivier Chastel:** I am committed to defending the European project in a global way, to making the European Union work, so that all citizens realise what the Union really does for us. The subjects I mentioned earlier are fundamental to the success of the European project. I have therefore undertaken to ensure that the European Union works more on the respect of values. I am thinking in particular of the financial penalty mechanism for non-compliance with the rule of law by a Member State, but also of strengthening the European Union's fundamental programmes, such as Horizon 2020 or Erasmus +. The EU has to demonstrate its added value!

“ ... ensure that the European Union works more on the respect of values.

*Having started as a new MEP this summer, what did you find most striking during these first months in office? What would you consider a main difference compared with your earlier work as member of parliament?*

**Olivier Chastel:** These first few months have been intense, that's for sure! For many of us a completely new legislative process must be absorbed and used. It is therefore about discovering and learning to work with new colleagues, within a brand new political group and finding your way in new buildings - and getting used to this great 'transhumance' to Strasbourg once a month for the plenary sessions. But so far, I find quite some similarities between the Federal Parliament in Belgium I know and worked in, and the European Parliament.

“ For many of us a completely new legislative process must be absorbed and used.

### **Covering the budget circle...to spent each euro wisely**

*For the IXth legislature of the EP, you are vice-chair of the Committee on Budgets and member of the CONT. The first is often considered to be at the front door of politics, the other more at the back door, when everything has been set and done. Where do you see the key synergies of being in both committees?*

**Olivier Chastel:** Indeed, I am grateful to be sitting on very important committees and therefore to be able to see the very beginning of the EU budget on the one hand, and to debate in order to allocate funding in the best way for the well-being of the European Union and its functioning. On the other hand, there is budgetary control, which allows me to highlight the weaknesses in the EU budget of previous years. Membership of these two committees will enable me to provide expertise, so that the future budget really reflects political ambitions and electoral promises, so that European citizens understand what this budget is allocated to and why.

*In a meeting of the CONT on 24 July 2019, your colleagues and you identified fraud and integrity as two of the key priorities for the CONT. For the hearings for new Commissioners, integrity and ethics are also in the spotlight. How would you describe the role of the CONT in this area? Which concrete actions can you foresee and what would you like to see the ECA deliver on this topic?*

**Olivier Chastel:** We are at a crucial moment in the future of the European project. Citizens are demanding more transparency and visibility on the functioning of the Union. It is imperative to have committees that ensure that the budget is allocated and managed properly. Each euro has to be spent wisely!

On the other hand, having an institution like the ECA to verify this allows optimal control, but also and above all it allows us to strengthen our commitment to democracy, which lies primarily in the hands of the European Parliament. Discharge procedures are the ultimate opportunity for the European Parliament to take control and to make

the wishes of European citizens heard. In the upcoming years, the fight against fraud, the creation and the role of the European Public Prosecutor's Office, audit efficiency and strong Key Performance Indicators will be the cornerstones of my work.

“ Discharge procedures are the ultimate opportunity for the European Parliament to take control and to make the wishes of European citizens heard.

### Ensuring transparency and ethical behaviour

*Is there another topic which jumps to your mind where you think that particularly the ECA can contribute, is there a topic you want the ECA to excel in?*

**Olivier Chastel:** I think the ECA does a remarkable job, not only with its annual reports but with its special reports as well. The ECA has to pursue its primary job, monitoring and auditing the various accounts of the European bodies. It has a major role to play as an independent watchdog of the financial interests of the EU and its management. The issues you referred to earlier are very important: transparency and ethics in the control of the European budget are tasks on which we must work together. The European Parliament needs the ECA to guarantee this to European citizens.

“ ... transparency and ethics in the control of the European budget are tasks on which we must work together. The European Parliament needs the ECA to guarantee this to European citizens.

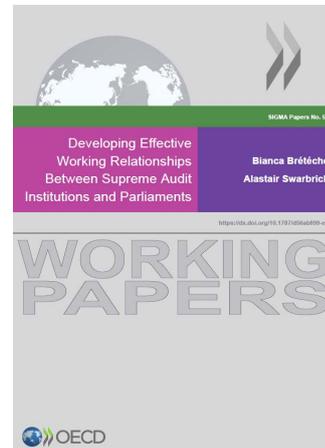
*What do you expect to be the three key political issues for this new EP and the new Commission and what would you particularly like to focus on?*

**Olivier Chastel:** Climate change will be a key issue for the coming years, clearly also for the Von der Leyen Commission. We must support the creation of a 'climate bank' – a bank that focuses 100% on ecological transition and promotes private and public sustainable development. We must strengthen our competitiveness and reduce our dependency on imported sources of energy - gas and oil. We must stop fiscal dumping within the EU. And we also need to provide a substantive response to the refugee crisis. In addition, I hope that the next few years will allow us to make progress on the effective implementation of gender equality in the European Union.

# Developing effective working relationships between parliaments and supreme audit institutions

By Bianca Brétéché and Alastair Swarbrick, Organisation for Economic Cooperation and Development (SIGMA)

In a democratic society, accountability and transparency are key ingredients to preserve public trust in public governance. Both a parliament and a supreme audit institution (SAI) have a crucial role in ensuring accountability, and are often natural partners in the accountability chain. Bianca Brétéché and Alastair Swarbrick, both working as Senior Advisors for public financial management, including external audit, in the SIGMA programme at the Organisation for Economic Cooperation and Development (OECD), supported by Jan-Pieter Lingen - who used to work at the ECA - are the authors of a SIGMA paper which looks in detail at practices applied within the EU and a few other countries for developing relationships between parliaments and SAIs. Below they provide some key insights from the research done and identify some good practices adopted, which can be particularly relevant for the many new Members of the European Parliament – over 450 – who have taken up their work after the European parliament elections in May 2019.



Source: OECD

## Partners in holding governments to account

Supreme audit institutions (SAIs) and parliaments are the two most important players for holding governments to account for the use of public funds. Parliaments do not usually have the capacity or expertise to scrutinise the use of public funds by the governments themselves. They rely on the objective and professional view of the SAI to provide them with assurance and information about the reliability of financial reports and the use of public resources.

Parliaments, however, will only use the work of the SAIs if it is interesting and understandable in a political context. In fulfilling their role within the accountability system it is therefore important for SAIs to ensure that their work is relevant, adds value and has impact, not only by reviewing and reporting on what has happened, but also by looking forward, identifying where improvements can be made, and promoting good practice. In this way, public sector audit contributes to improved standards of governance, better management and decision making, and more effective use of public money.

## SIGMA Paper No. 54

In 2017 SIGMA – standing for 'Support for Improvement in Governance and Management', a joint initiative of the Organisation for Economic Cooperation and Development and the EU, principally financed by the EU – published [SIGMA Paper No. 54](#), offering guidance to SAIs and parliaments for establishing effective working relationships. In this paper we describe and analyse international standards and contextual factors, as well as features and practices across Europe, and highlight key issues for effective relations and areas of good practice. It also offers a toolkit for strengthening working relations between SAIs and parliaments. The report is based on the contributions of 33 SAIs from European Union (EU) member states and EU candidate countries and potential candidates.

In the paper we describe the current international standards, which set high expectations for SAIs concerning the way they report to parliaments about their audit work and the efforts they need to undertake to assist members of parliament to understand and use audit reports. SAIs are also required to engage with their parliament regularly in order to be aware of its expectations and to make sure parliamentarians understand the role of the SAI and how they can benefit from its work. We further identify a number of factors that influence these relationships, which have to be taken into account when looking to develop practical arrangements between the SAI and the parliament. The constitutional and historical background of the SAI, the parliamentary system, the governmental organisation, and the budget and accounting system all shape the relationships between the SAI and the parliament.

### **Creating effective working relations**

In response to a survey conducted by SIGMA in early 2016, 33 SAIs replied describing how they meet expectations from their respective parliaments. SAIs also provided information about the way their respective parliaments use their work. The survey results confirm that all SAIs continuously review how they can increase their impact by developing new procedures, targeting communication, increasing transparency, and being pro-active. The diversity and variety of the reported practices is a source of inspiration for any SAI looking to enhance the impact of its working relationship with parliament. To some extent this holds true as well for parliaments that want to take their duty to use SAI reports for holding government to account seriously.

Effective working relations begin with different means of cooperation in the planning phase of the annual and multi-annual work programmes of SAIs. Most SAIs pay attention to specific suggestions for audits coming from their parliament, whether legal provisions exist for the parliament to request audits or not. Examples of good practices identified to achieve this included agreeing with parliament the consultation procedure for audit requests and limiting the number of audits on request to be carried out. They also included informing parliament about the SAI's Work programme and strategic audit plan, organising opportunities for parliament to regularly provide input, liaising with the dedicated committee and other relevant committees, and following relevant discussions in parliament for identification of potential audits.

The foundations of the relationship between SAIs and parliaments are the audit reports that SAIs send to the parliament. While all European SAIs report to parliament there are significant differences between the countries as to when, how and how often they do it. Good practices adopted by SAIs for reporting to parliament included:

- submitting reports to parliament and publishing them at the same time;
- making sure reports are distributed among all relevant members/committees;
- offering presentations and briefings on reports;
- using press releases to highlight important issues included in reports;
- being selective in the reports submitted to parliament or giving advice on which reports to select for examination;
- considering thematic reports assembling results from previous audits.

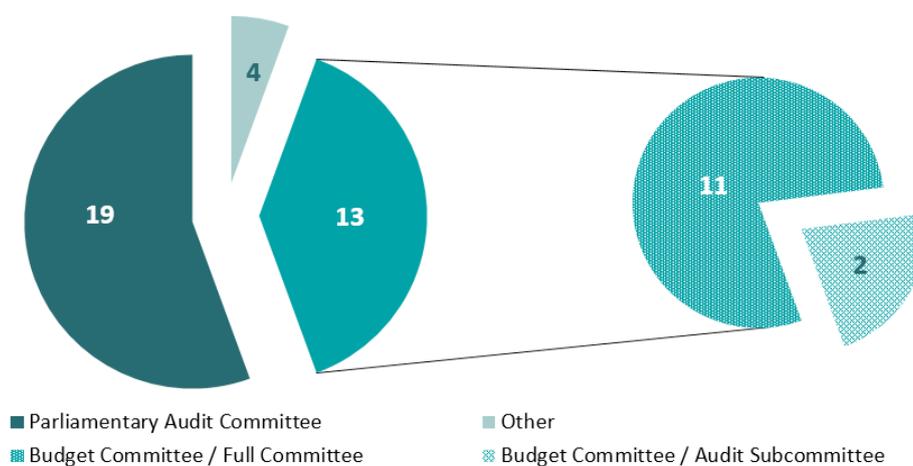
### **Going beyond providing reports**

Many SAIs go beyond just providing parliaments with audit reports and take initiatives to establish good working relationships with their parliaments, raise awareness about the role of SAIs and assist in understanding audit reports. These communication activities also seek to increase the attention parliaments pay to SAI reports. Good practices identified for communicating with parliaments included: holding regular meetings, supplemented by informal contacts at working level and interviews; co-ordinating agendas and reporting timetables; organising conferences, roundtables, and workshops;

agreeing memoranda of understanding on procedures for co-operation; establishing a communication policy; improving understanding through the secondment of staff.

The most common parliamentary arrangement for co-operating with SAIs and using their work to hold governments to account consists of designating this task to a parliamentary committee. Throughout European parliaments this task belongs to the budget committees or specific public audit committees, which can be standing committees or subcommittees. In a number of countries, sectoral committees are also playing a role in stimulating and using the audit work of SAIs.

**Figure 1 - Number of parliaments according to committee arrangement for handling SAI reports**



*Survey Results (2012) and Parliamentary Control of Budget Implementation*

Source: European Parliament

The good practices for parliamentary arrangements identified include:

- ensuring adequate organisation of committee responsibilities for SAI reports;
- setting up a specialised audit committee or audit subcommittee;
- ensuring availability of sufficient staff and analytical resources in parliament;
- involving sectoral committees, especially in dealing with performance audit reports;
- using a formal discharge procedure as part of the budget cycle.

### **Follow-up of recommendations**

In order to ensure that their audit work achieves results and contributes to improved management of public funds, all European SAIs monitor the follow-up of their observations and the implementation of recommendations made in their audit reports. Many SAIs also maintain a database and some publish information about the way audited public institutions act upon audit findings. Other good practices identified for follow-up procedures included reporting on implementation of recommendations at fixed intervals, integrating the monitoring system into the system for planning of review and follow-up audits, and paying specific attention to reporting on implementation of recommendations in performance audit reports.

The audit work of SAIs gains greater impact if parliaments also follow-up on audit work in exercising their budgetary oversight over the government. Many parliaments in Europe have developed relevant procedures. Good practice examples involve:

- development of standard procedures and schedules for parliamentary discussion of SAI
- reports that makes timely conclusions possible;
- assigning a rapporteur for specific SAI reports;
- organisation of hearings with auditees;
- requiring action plans from government or auditee, and setting deadlines for measures to be taken;
- considering sanctions in cases of serious non-compliance with recommendations from the SAI
- or parliament (political, financial and disciplinary);
- requiring reports from auditees or government on the implementation of adequate measures.

Almost all SAIs report to parliament on their own performance to provide accountability for their work. This is generally done through reporting on their activities and their use of resources in the previous year, either in a separate annual activity report or in a dedicated chapter of their annual report. Good practice in this regard involved providing parliament with an audited annual report on accounts and use of resources and an annual report on activities and implementation of the work programme. Other examples included external peer reviews on a regular basis and estimations of savings made for the public sector.

#### **Toolkit providing good practices for working relationships**

These good practices, linked to the relevant standards and principles, result in a 'Toolkit for strengthening working relationships between SAIs and parliaments,' as is reflected in Annex 2 of Sigma Paper No. 54. To be clear: we do not think there is a 'one size fits all' for effective relations between SAIs and parliaments, and over time relations will need to be reshaped. But the toolkit can help in looking for new instruments or procedures to maintain and improve effective working relationships, all for the purpose of holding governments to account in the best possible ways.



## EU election system gives citizens a say

Every five years, EU citizens get to vote for their representatives to the European Parliament. This is a crucial opportunity for the EU electorate to express themselves on the EU's main direction. The ensuing five years will bring regular output from the EP, the Council and the Commission on policies and programmes and their implementation. In between elections, the political landscape in the EU offers various democratic participatory tools ranging from referendums, through other forms of consultation (e.g. Eurobarometer surveys, focus groups, public hearings) to Citizens' Dialogues and citizens' assemblies with randomly selected participants. .

## But where can citizens regularly provide input on EU policy-making?

This is where public consultations come in. They are the Commission's preferred means of engaging with citizens on a regular basis. These non-binding online surveys are designed to collect information and opinions from all EU citizens, allowing them to have a say on upcoming policy initiatives or existing programmes. This creates a two-way street between EU institutions and citizens. The Commission is not the only EU institution to ask citizens for their input on (anticipated) output. The ECA also makes use of surveys to complement its audit findings, for example in working on its special report 30/2018 on passengers' rights – where citizens were consulted on the effects of policy – or special report 14/19 on the Commission's use of public consultations, published on 5 September 2019.

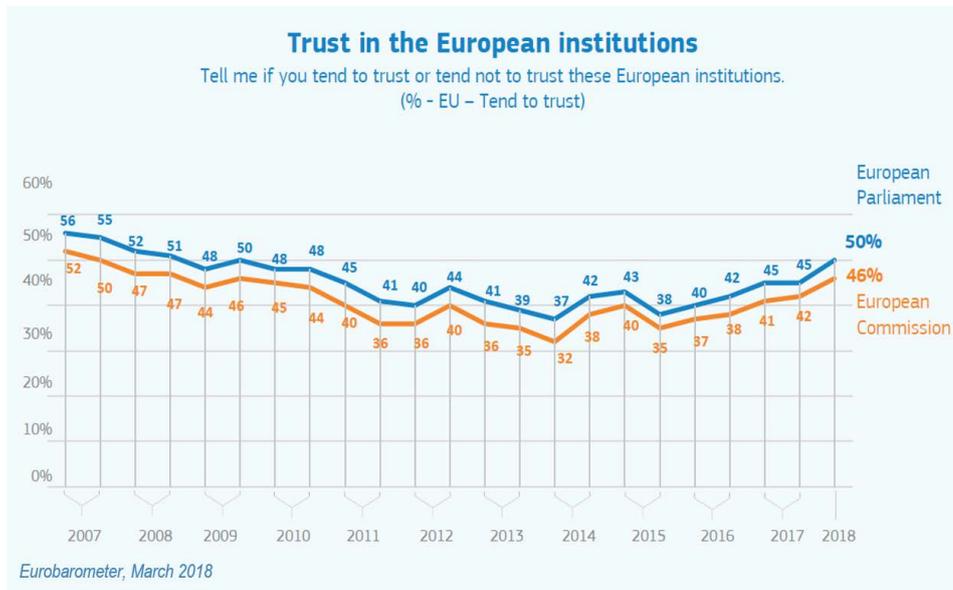
### Box 1 – Main findings of ECA special report 14/2019 on the Commission's public consultations

- Commission's framework for consulting the public is of a high standard;
- The performance and participants' perception of the audited consultations were satisfactory;
- Lack of overall strategy as to when to consult stakeholders and when citizens;
- Commission did not systematically publish its consultation strategies or other advance information;
- Consultations are not using a variety of communication channels to reach their target audiences ;
- Participation higher when the survey was made available in all EU official languages;
- No clear criteria for deciding whether consultations were in the 'broad public interest' and thus translated.
- Commission's data analysis was satisfactory, but checks regarding the validity of responses were limited.

## Reaching out to citizens is no new phenomenon...

Reaching out to citizens is actually a basic value of the European Union and is reflected in the Treaty. According to Article 11, the Commission has a duty to consult citizens and representative associations in all areas of Union action. Citizens' growing distrust towards the EU and its decision-making process (see **Figure 1**) prompted the Commission to take a renewed interest in Article 11 in 2015. The Juncker Commission made it one of its primary objectives to render the EU and its law-making more democratic and transparent. This was reflected in its Better Regulation objectives, published on 19 May 2015, which stressed the Commission's commitment to engaging more effectively with EU citizens. In 2018 the Organisation for Economic Cooperation and Development (OECD) ranked the Commission first among all OECD countries for citizen engagement in law-making.<sup>1</sup>

**Figure 1 – Eurobarometer figures on citizens’ trust in EU institutions**



**Citizen participation in public consultations remains low**

Despite giving citizens the opportunity to participate in EU law-making, public consultations only yielded an average of around 500 responses in 2015 and 2016 and 2 000 responses each in 2017 and 2018, excluding the top consultations for each year (see **Figure 2**). The top consultations were:

- 2015 : PC on EU nature legislation (Birds Directive, Habitats Directive) – around 550 000 responses;
- 2016: PC on the European Pillar of Social Rights – around 16 500 responses;
- 2017: PC on modernising and simplifying the common agricultural policy – around 63 000 responses;
- 2018: PC on summer time – around 4.6 million responses.

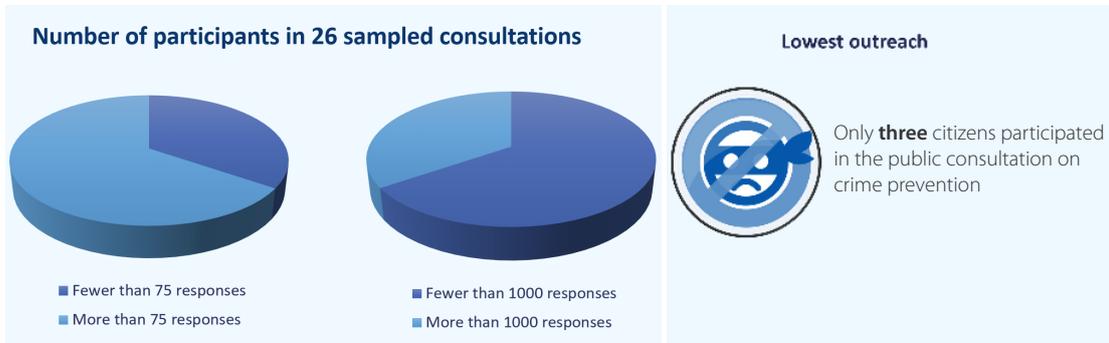
**Figure 2 – Number of public consultations done by the Commission and their outreach**

Our audit showed that, on average, the Commission carried out more than 100 public



consultations per year. We found that just over a third of the 26 public consultations examined by our auditors received over 1 000 responses, while over a third received under 75. The public consultation on crime prevention had the lowest response rate, with just three replies (see Figure 3).

**Figure 3 – Participants in the 26 sampled consultations**



### Top public consultation by far...

The public consultation on summer time arrangements, which took place in August 2018, received responses from all 28 Member States. With 4.6 million participants, it attracted more interest than any public consultation ever conducted by the Commission. The outcome was clear: 84 % of respondents were in favour of ending the twice-yearly clock change. To put this into perspective, however, less than 1 % of all EU citizens participated in the survey.

### ... but only in Germany and Austria

Geographical imbalance was a major issue during the summer time consultation: 70 % of responses came from Germany and 6 % from Austria, the two countries that also ranked first and second regarding the proportion of the national population taking part (3.8 % and 2.9 % respectively). Although the Commission tried to boost participation when the consultation was underway by focusing on the nine countries that were heavily under-represented, geographical imbalance remained a problem. For example, while Germany had a response rate of 3.8 %, in more than ten EU Member States, including several larger ones, the response rate was around 0.001 %.

### Public consultations are not representative for the entire EU population

Given that participants are self-selected, public consultations do not provide a representative view of the EU population. In light of this, it was surprising to hear Commissioner Bulc say after the public consultation on summer time: 'Millions of Europeans used our public consultation to make their voices heard. The message is very clear: 84 % of them do not want the clocks to change anymore. We will now act accordingly and prepare a legislative proposal to the European Parliament and the Council, who will then decide together.' Or to hear President Juncker state: 'The people want it, we do it.'

Before launching the public consultation on summer time, the Commission did not provide a consultation strategy or any other advance information, except for a follow-up to a European Parliament resolution. The outcome could have been different had the Commission informed citizens adequately in advance about the objective of the consultation and the intended use of its results.

## ECA reviewed consultations and conducted a survey

In addition to the public consultation on summer time, we reviewed 25 other online consultations, conducted between 2016 and 2018 by five Directorates-General and covering issues such as the environment, migration measures and agricultural policy. We assessed whether they were effective at reaching out to citizens and stakeholders and how the Commission made use of the citizens' contributions. We also examined the design of the Commission's framework, how the Commission prepared and conducted the public consultations, and how it provided information about the consultation work. We also set up a panel of experts to enhance our analysis and help us focus on particularly relevant areas .

### Box 2 - Promoting the dissemination of special report 14/2019 on the Commission's public consultations

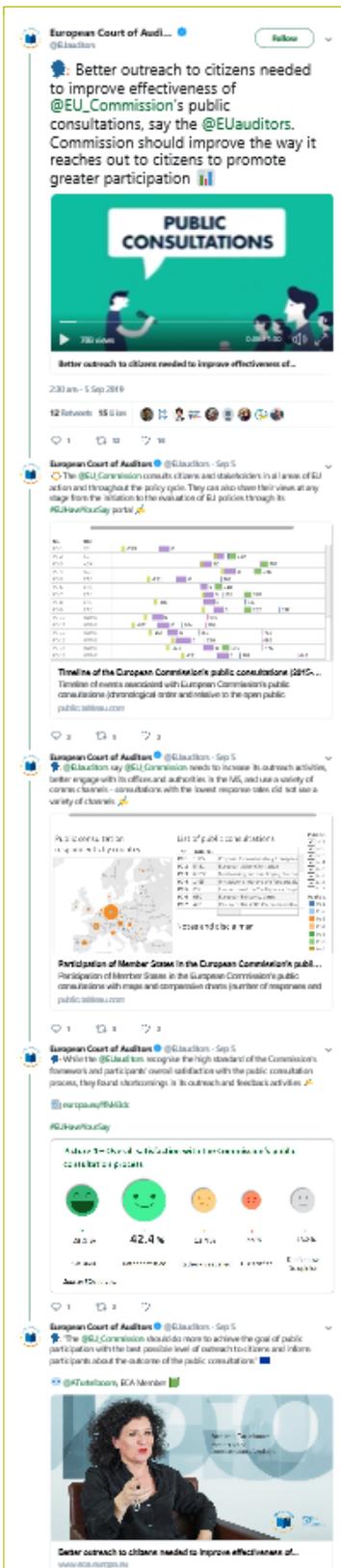
On 5 September 2019, we issued the special report on public participation in EU law-making. Its publication has been encompassed within a communication which included a promotional video: <https://twitter.com/EUauditors/status/1169543190422196225> and the publication, for the first time in the history of ECA, of interactive visuals accompanying the social media campaign to promote the special report: <https://public.tableau.com/profile/ecalab#!/>

The special report has been presented at a seminar to the European Economic and Social Committee (26/09/2019), to the European Parliament Committee on Budgetary Control (08/10/2019) and to the Council of the European Union Working Party on Better Regulation (09/10/2019).

In addition, we conducted a perception survey to find out how participants felt about the consultations. We received 2 224 responses from participants in 15 of the public consultations sampled by the ECA. Our survey showed that that 65% of respondents were satisfied with the consultation process, but only 40% were satisfied with the Commission's feedback, which was often late, incomplete or only in English.

### Box 3 – Some participants reactions on public consultations

- Respondents are in favour of a democratic process promoting active EU citizenship: *Apart from voting for the European Parliament, there are very few opportunities to have a say in how the EU deals with issues, so having an input into an EU public consultation helps to fill the democratic gap.*
- Respondents often learned about public consultations through civil society groups:  
*... if it weren't for organisations and foundations, I would never comment on any subject because nothing reaches me, e.g. questionnaires.*
- Respondents call for adequate publicity to raise awareness of public consultations: *Certainly, as well as reaching out to citizens electronically, a public campaign is also important in order to involve those citizens who are most interested.*
- Respondents like questionnaires tailored to citizens in all EU languages: *In a new survey, which I have to answer, the questions should be in my mother tongue: Danish. The wording should also be easier to understand, as not everyone has a university-level education.*
- Respondents want more feedback on the outcome of public consultations: *I don't receive a summary of the opinions. The outcome of the consultation is unknown.*
- Respondents would like the Commission to be more accountable: *The European Commission needs to be balanced in addressing the issues, trying to obtain from citizens not just a positive, optimistic response to its questions, but also concerns and criticism.*



### **Public Consultations in the EU: still far from curing the perception of a democratic deficit in the EU**

We at the ECA also noted in our 2018-2020 Strategy that the '...perceived distance between EU citizens and institutions is now an existential threat to the EU'. The Commission's initiative to ask citizens for their input on EU policy-making – in between elections and on a broad range of topics – should therefore be applauded, as emphasised in the OECD 2018 report. Similarly, any initiative aiming at reducing the distance between EU citizens and its institutions is most welcome. Public consultations, despite their limitations and implementation difficulties, are certainly a step in the right direction. No surprise then that the ECA is also slowly but surely increasing its use of public consultations.

But we in the EU should not be complacent. Public consultations are an essential tool to bring the EU closer to its citizens, but their potential is far from fully exploited. That is why we made a number of recommendations in our report. Most importantly, for the new legislative period, the Commission needs to ensure that their consultations reach significantly more people. Other recommendations we made relate to better monitoring and ensuring that selected activities complement each other, stating the aims of the consultations more clearly, diversifying consultations through general questionnaires and specific questions for specialists, and applying high standards for data processing and protection to prevent external manipulation. We also recommended complete transparency on the intended use and the outcome of the consultations.

Having fully accepted basically all of our recommendations (one sub-recommendation relating to translation into all EU languages was only partially accepted), it will be interesting to see what steps the new Commission takes to create – as stipulated in Article 11 of the Treaty on European Union – an open, transparent and regular dialogue. Progress in this area will be necessary to achieve the ultimate goals of public consultation: better regulations and policy-making for EU citizens so that they gain more trust that the representatives elected to the European Parliament and people selected for the EU do the best possible job in the public interest. Using the results of public consultations may not necessarily make that job easier but should increase the impact of policies for EU citizens. It may even inspire other EU institutions to make more use of the potential created by direct dialogue with the citizens.

# Money is not the main issue at times of crisis

## Interview with Klaus Regling, Managing Director of the European Stability Mechanism (ESM)

By Gaston Moonen



Source: Steve Eastwood

Klaus Regling

European Commissioners may come and go, but Klaus Regling is a stable factor when it comes to contributing to the Stability and Growth Pact (SGP). As Managing Director of the European Stability Mechanism (ESM), he was one of the central actors when the ESM and its predecessor were created. He provided key guidance and financial assistance to safeguard stability in euro countries in difficulty and the euro area as a whole. In this interview, he calls for the SGP to be simplified and adapted to the new reality. He also makes a case for completing the banking union and elaborates on the role the ESM can play in the coming years, including as a backstop in times of crisis.

### Putting the ESM concept into practice, including beyond its first decade

*You have held senior positions in the financial and economic world, for example at the IMF, as Director-General for Economic and Financial Affairs at the European Commission, and since 2010 as Managing Director of the ESM and its predecessor. You were also, while working at the German Ministry of Finance in the 1990s, one of the co-authors of the Stability and Growth Pact. The functioning of the SGP is quite important for the ESM – if this Pact is not working well, the ESM might have to step in with a financial assistance programme. Did the ESM have to do more than you initially expected when you started as the ESM's first Managing Director in 2010?*

**Klaus Regling:** For sure! When we started building up first the predecessor of the ESM, the European Financial Stability Facility (EFSF), the expectation was clearly that the EFSF would never have to be activated: we all agreed that it was essential to have it in place to calm the markets. We also understood that it was important to demonstrate that it was up and running. And we also hoped that this would be enough to ensure stability. But the reality was different because there was a deep crisis.

By the way, not everything in the crisis countries was linked to the SGP. That is a misconception. Two of the five euro area Member States that lost market access and needed our financing (Ireland, Portugal, Greece, Spain and Cyprus) always met all the criteria of the SGP. For several years, Spain and Ireland had fiscal surpluses and low debt. So they exceeded the SGP targets and still got into a crisis. Therefore, one has to be careful in identifying the reasons for the crisis. They differ country by country and are not always related to fiscal deficits, as the examples of Spain and Ireland show. Other countries like Greece were different; they indeed had an excessively large deficit and debt. So the reasons differ.

What all countries had in common was a loss of competitiveness. This is certainly also true for Ireland and Spain, which had no fiscal issues. I say this just to be clear on what the key reasons for the euro crisis were. But in the end, the possibility that five countries would need almost €300 billion in emergency financing – that was clearly not foreseen when I was appointed in 2010.

“ ... the possibility that five countries would need almost €300 billion in emergency financing – that was clearly not foreseen when I was appointed in 2010.

*Many political players have changed this year.*

*We have a new European Parliament, soon a new European Commission and a new ECB President. And perhaps some key priorities have also shifted a bit, ranging from a Green Deal for the EU to how to develop the EU further as a global player at a time of trade wars, etc. What does this new political environment mean for the ESM, since you also participate in Eurogroup meetings? To what extent will it have an impact on your work?*

**Klaus Regling:** Well, in principle it does not or at least not a lot. Our mandate is set out in the ESM Treaty, and our cooperation with the European Commission is defined in a memorandum of understanding that I negotiated with the Commission. The ESM and the European Commission signed it and it was endorsed by the Eurogroup and the Euro Summit. As regards the European Central Bank (ECB) and the International Monetary Fund (IMF), we work together because we are engaged together in some Member States that needed financial assistance. Institutionally, it is all set and well defined.

At the same time, we all know how important people are because we work with institutions, but behind institutions are people and they can make a difference. So in that sense there is a new phase that is beginning now and, as we all know, this year is a bit different from normal changeovers since so many top positions became vacant at the same time. That is normally not the case. So we will have new counterparts at the top of the ECB, the President of the Commission, the Commissioner in charge of Economic Affairs, who will be Paolo Gentiloni but also the Commissioner in charge of the euro area and the euro, although that person remains the same, Vice President Valdis Dombrovskis. So all that can make a difference. But, at the same time, one has to realise that those people are all well known. For instance, I worked very closely with the incoming ECB president Christine Lagarde when she was heading the IMF. I am sure I will work with her as well in her new post as ECB President as I previously did with Mario Draghi.

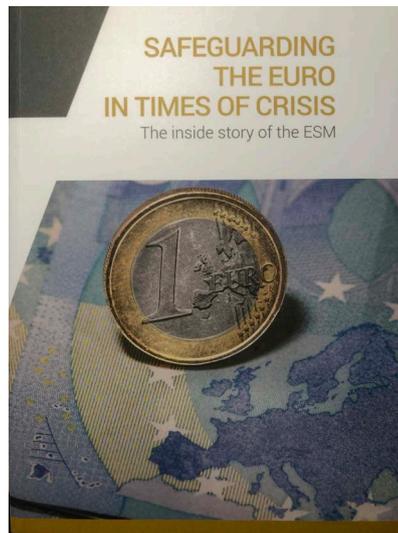
### **Stability and Growth Pact – up for revision**

*Pierre Gramegna, Luxembourg's Minister of Finance, during the presentation of the book 'Safeguarding the Euro in Times of Crisis – The Inside Story of the ESM' (see **Box 1**) on 24 September 2019, indicated that one has to appreciate the ESM's achievements, considering the success of its interventions. Indeed, this is also part of the inside story told in the book. Looking forward, you have indicated that the Stability and Growth Pact – whose working is important for the ESM – may need some revision because its implementation has become too complicated. Where does it need to be changed and how does that leave the countries which stayed within the criteria of the Pact?*

**Box 1 – Book *Safeguarding the Euro in Times of Crisis – The inside story of the ESM***

The European Stability Mechanism and its temporary predecessor the EFSF provided billions of euros in loans to five hard-hit euro area countries during the European financial and sovereign debt crisis of the early 2010s. This helped to safeguard the stability of those five countries and the euro area as a whole.

This book tells the inside story of those who played key roles in setting up the organisations and combating the crisis. In exclusive interviews, global financial leaders and ESM insiders provide a rich stock of perspectives and anecdotes that bring to life the urgency of the crisis as well as the innovative solutions found to resolve it. The book is available for PDF download and chapter-by-chapter tablet view on the [ESM website](#).



**Klaus Regling:** What I have said is that we have seen a lack of trust among the Member States because the implementation of the SGP has become too complicated. Most people do not understand how it works anymore. And that is not good for trust and confidence.

“

*... we have seen a lack of trust among the Member States because the implementation of the SGP has become too complicated. [...] And that is not good for trust and confidence.*

I think it is true that the SGP has become overly complex. By the way, this was not because the Commission wanted it to be so complex. These were decisions taken by the ministers and the member states. To make an exception here, an exception there, and then they asked the Commission to implement it. But the end result is that few understand anymore how it really works. That is not good. That is why many people think it needs to be simplified, because the trust has gone.

Regarding the Pact, one has to look at the underlying economic situation. In the aftermath of the 2008 financial crisis, everybody agreed to increase deficits to get out of the crisis. That was the right decision. So every country was above 3%. It was a common decision. And it was covered by the escape clause of the SGP. It was always there for serious events. But now we have to live with the results: people do not understand the Pact and there is a loss of confidence in each other. And that is regrettable.

*One concern could be that we see several Member States being close to or well beyond the deficit and debt limits set by the SGP. Does this mean that, if the ECB's monetary means are exhausted, it will only be a matter of time before the ESM is called in to help mitigate the consequences of serious deficit problems, because the usual shock absorbers are not there anymore?*

**Klaus Regling:** I am not so sure. Our fiscal position today is better than any time during the last 10 years. 2018 was the first year where almost every Member State of the union had a deficit below 3%. The first time in 10 years! In

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*Our fiscal position today is better than any time during the last 10 years.*

2018, the euro area had a fiscal deficit of only half a percent, compared to over 6% in the USA, or Japan, where it was almost 3%, and the UK where it was 1.5%. That is not bad at all. This means there is more fiscal space in the euro area than in any of the other advanced economies. Of course, the distribution inside the euro area is uneven. There are a few countries like the Netherlands and Germany that have a lot of fiscal space, and others, like Italy, that do not have much. But Italy has been below 3% for many years

already. In that sense, it does not mean that all the countries can do something. But together there is more fiscal space in the euro area than in the rest of the world. And that's positive.

Now, if a big crisis were to hit again – and I would argue for fiscal actions only in case of a big crisis, not just to smooth out every cyclical development – if it is a big one like ten years ago, which I do not expect, but if it were to happen (and crises are unexpected), then of course we could do again what we did ten years ago. The ECOFIN Council could decide if the circumstances are such that this is a big crisis and we need to do something together, justified by the escape clause of the Pact, as ten years ago, that all countries can increase their fiscal deficits. Some more and others a little bit. Overall, the fiscal space is the one thing I am not worried about. If we compare the eurozone with the US, looking also at interest rates, on the monetary side they have more space, they have more room to act. On the fiscal side, we have more room to act.

*In the 2009 crisis the saying regarding banks was that they were 'too big to fail.' Is this saying now applicable to Member States in the eurozone? Did this go from banks to sovereigns, to countries, meaning that some Member States are too big to fail so the Eurogroup has to support them no matter what? Greece may have been relatively easy to support to prevent it from defaulting, but what if larger Member States get into serious trouble?*

**Klaus Regling:** I do not think this is really an issue. The ESM has an unused lending capacity, a firepower of €410 billion. That is big enough even to help a big country. I do not expect this to happen but it is reassuring that markets understand that the ESM is big enough also to help large Member States. So we do have the money. On top of that, we have the Outright Monetary Transactions (OMT) programme of the European Central Bank. The OMT combines an ESM programme which gives the conditionality, with the unlimited firepower of the ECB. Of course, it is the decision of the ECB to activate it or not. But if they do, then money is no longer an issue. So money is not the most important issue when I think about a huge crisis.

“ So money is not the most important issue when I think about a huge crisis.

### **Future key issues affecting the ESM**

*What would you identify as three key financial/economic issues currently on the table for the ESM?*

**Klaus Regling:** There are three issues where we need to find solutions, and they are all at different stages, with different degrees of controversy around them. One is the European Deposit Insurance Scheme (EDIS), where my feeling is that Member States do agree. This is why I am confident that such a scheme will eventually be set up, as part of the banking union. But there are arguments - and I have no problem with that – such as 'what are the necessary preconditions that need to be in place first' so that one can move to something like EDIS. It does not have to be EDIS and called like that, it might be better to talk about a common deposit insurance scheme because it may be different from what the Commission proposed under the name of EDIS. I think this will happen and should happen, since it is important to complete the banking union.

The second one is a very technical issue, but is also important for the functioning of the banking union. It concerns liquidity and resolution. So you have the Single Resolution Board (SRB) and the Single Resolution Fund (SRF), they exist, they are up and running. They are accumulating their own resources, which by the end of 2022 will be equivalent to 1% of all deposits. That will be around €55-60 billion. And we, the ESM, will provide a backstop to the SRF in case the normal resources are not sufficient. Then we can double that amount. And that takes care of resolution needs or bank capital needs. What is not covered is when a bank is in resolution and competent institutions like the Single Supervisory Mechanism (SSM) and the SRB have sorted out the capital needs and

resolution costs, and the bank goes back on Monday morning and opens again, not everybody in the market might immediately have confidence in the decisions. And then liquidity is needed. So to provide capital is one thing, and so are resolution costs, but liquidity is something else.

The problem is that liquidity needs can be huge. For a big bank, it can be several €100 billion. And they may be needed for a few days or a few weeks, but the need may be there. In countries where you have one government, one central bank, one supervisor, the central bank will typically provide the money and the government provides the guarantee. In the EU area, however, we do not have a government. Therefore we do not have a ready-made solution and we cannot just copy what others have done. So we know that we need to find a solution but it is not in place yet. It is rather technical but very important for to respond to a banking crisis. I am confident we will get there but it requires some work.

Thirdly, I would identify the fiscal capacity for macroeconomic stabilisation. Out of the three, this is the most controversial. Here I do not see an agreement anytime soon. However, it needs to be discussed. Simply because macroeconomic

“ ... the fiscal capacity for macroeconomic stabilisation. [...] this is the most controversial.

stabilisation in euro area countries cannot happen via monetary policy. In the euro area, there is one monetary policy for all. Rebalancing cannot happen via exchange rate policies. Fiscal policy is the only macroeconomic instrument. Of course, every country should have its own national fiscal monetary buffer. If countries are within the Stability and Growth Pact then they have this 3% of their GDP as a national buffer. But we know that when there is a real shock, it might not be enough. So it could be useful also to have a European buffer for that.

There are several proposals on the table. There is the investment protection facility, proposed by the Commission. Secondly, the reinsurance of national unemployment systems proposed by the German Finance Minister. The IMF has proposed the 'rainy day' fund. From the ESM side, it could be a shorter-term ESM facility, which in a way is similar to the 'rainy day' fund. What is interesting is that for each of these four proposals - and there are probably more - the mechanism would be completely different. This sounds very different but in the end, the objective is always the same: to help, to contribute to macroeconomic stabilisation. They all can be designed in such a way that there will be no permanent transfers. This is the interesting part because it would be unacceptable for a number of Member States to have several more transfers. But they can be designed without leading to more transfers. If every government knows that they have to repay relatively quickly then the risk of moral hazard – that others will incur the costs for you - is low.

*As the EU's external auditor, the ECA has published several audit reports regarding EU activities in financial and economic governance areas, looking at set-up, proceedings and impact. They range from assessments of measures taken regarding the macroeconomic imbalance procedure to the support programmes during the Greek crisis. Are these reports helpful for you to have?*

**Klaus Regling:** Some of your reports are not so relevant for us, like for example on the macroeconomic imbalance procedure. That is something the Commission and the Council deal with, not us. Regarding Greece: yes, we looked at that, and we started a few months ago with the second evaluation of the ESM work that is focused on Greece. There, our experts have of course looked at all relevant studies and analyses that have already been published. For example, by the IMF, but also by the ECA. In order to learn from them and not to duplicate work. Either to confirm it or to contradict it when we do not agree! So that is an example where we have looked at the ECA's reports very carefully. But some others, they are just not that relevant for us.

Obviously, one ECA publication that could have been relevant for us was the ECA opinion on the Commission proposals to turn the ESM into a European Monetary Fund (EMF). However, regarding this proposal, from the beginning it was very clear that it would go nowhere. I understand that the ECA had to give an opinion because the European Parliament had asked for it, and your institution had no choice. Maybe the Parliament should not have asked for it because it was clear from the beginning that only two or three Member States supported the Commission proposal or were prepared to look into it. The others refused from the start. That's why I thought that it was not very useful to spend a lot of time and resources on that. But I think we can all agree with the ECA's take on the Commission proposal: to keep the accountability framework as understandable, transparent and direct as possible.

“ ... keep the accountability framework as understandable, transparent and direct as possible.

### The 'S' in ESG

*An important issue that many people want to address is climate change. We see this in the proposals of President-elect Von der Leyen, and in September 2019 there was an important UN climate meeting in New York. In June, the ECA organised a conference on sustainable development goals and one of the issues was the power the world of investment can have through private equity funds going 'green'. Do you see a role for the ESM to actually stimulate Environmental, Social and corporate Governance (ESG) and contribute to Sustainable Development Goals (SDGs)? So not only for the ESM itself, in terms of its organisational functioning, but also as regards ESM lending.*

**Klaus Regling:** We are indeed active on both sides of our balance sheets. We provide loans to countries that lose market access. That is where we disbursed almost €300 billion in the last eight years. And then we have the liability side, our paid-in capital, which needs to be invested. On our lending side, I feel more responsible for the 'S' of Environmental, Social and corporate Governance. Because we provide money to governments and that has a very strong social impact. If we did not provide that financing, then the countries that lose market access have to cut expenditure back overnight to the revenue they have. That means that the fiscal deficit needs to disappear overnight. In the case of Greece, that was 15% of their GDP. So when a government has to cut 15% of its GDP in expenditure overnight, because it can only spend what it takes in revenue, that has a huge negative social impact. They have to cut pensions, wages, medical services, social services, everything.

In Greece, the government also had to make cuts, but these were small compared to what would have happened if they had not received ESM money. It is the same when the IMF comes in; it is the same effect. That is why I pick foremost the 'S': it is the social component. Our lending has a very positive social impact on the borrowing countries. On our investment side, we have more than €80 billion in paid-in capital from our Member States. We do not use that money for lending. It is there to protect our bondholders. That is why we have strong ratings and pay low interest rates in the market. And we need to invest it. We are increasingly looking at how to do that also in an ESG friendly way. But we are not a pacesetter here, we are more of a follower, we see what is possible in the markets. Then the third dimension is that we also try in our organisation, in our operations, to comply with ecological guidance and be a green institution.

“ [on ESG] ... it is the social component. Our lending has a very positive social impact on the borrowing countries.

### Objective: a better monetary union with lower ESM loans

*From an economic/financial perspective, what would you say are the important issues that the new Commission should have on its agenda for the coming five years?*

**Klaus Regling:** There are many important agenda items: climate change or defending common borders, and if we do not succeed on these issues, they can also become macroeconomic issues. Because there might be disruptions in the single market, which is bad for economic performance. Looking at economics and finance, an important issue continues to be – nothing new – to always look for the right policies that strengthen potential growth. This is even more important considering the demographic problems that the majority of European countries face. The former Commission did that, and there are many mechanisms to deal with that, and the Commission issues country-specific recommendations every year to Member States. They do this not only to Member States with an acute problem but each and every one of them since every Member State has obstacles to growth. The Commission is right – and should continue to do so – to identify these obstacles to growth and remind Member States to work on that.

In the more narrow area, as far as the ESM is concerned, the good functioning of the monetary union is the main interest of the ESM. We want to help the monetary union to work better, so that fewer ESM loans are needed.

That is what I see as our main mandate. Of course, when there is a crisis, our mandate is to provide financing but now the main mandate is to prevent it and make the monetary union function better.

“ We want to help the monetary union to work better, so that fewer ESM loans are needed.

There we need a more complete banking union. And a complete capital market union, which will take even longer with many dimensions like insolvency laws and a common tax base for corporates and things like that. So the banking union, the capital markets union and a facility for macroeconomic stabilization that we talked about – they all fit well together, and would lead to a more robust and less vulnerable monetary union. So you can see, we still have a lot to do in the years to come.

# Parliaments and SAIs – a special relationship

By Derek Meijers

Both the European Parliament (EP) and national parliaments in the Member States maintain close relationships with their respective supreme audit institutions (SAIs). But to what extent can parliaments influence the SAIs' work? And how do the SAIs support parliamentary function? Derek Meijers, project manager for the online portal [Public Audit in the EU](#), takes a look at this special relationship, with a special focus on how it plays out at European level.



## The place of public audit in the government system

Independent external public audit is a key aspect of modern societies' checks and balances to ensure the efficient, effective and economic use of public resources. Public auditors operate autonomously in a highly political context and are prerequisites for a properly functioning democracy.

The simple fact that SAIs assess government action can already positively influence good governance. Moreover, by helping parliaments to control governments, SAIs act as both service providers and independent guardians of citizens' interests. This is why having an independent external public audit body in place is a prerequisite for each country that wants to join the Union.

The 29 supreme audit institutions (SAIs) of the European Union and its Member States are the modern embodiment of a public audit function, which, in some countries, dates back as far as the 14th century. And although the individual structures, mandates and working methods of most SAIs have evolved over time – sometimes as a result of political change or the reform of public administration, – their core function remains the same: to scrutinise the finances and policies of governments and build trust.

## SAIs and parliaments: all about independence

All EU SAIs are autonomous, independent institutions, and all maintain close working relations with their respective parliaments. In many Member States, the SAI has a similar status to the parliament itself, but there are some indications their relationship is a special one. For example, because the SAI has a legal obligation to report to parliament (e.g. through an annual report), as the SAI is part of the parliamentary oversight structure (e.g. in Lithuania, Poland and Sweden), or because the SAI is entitled to provide its opinion on certain legislative (usually budgetary) matters to parliament (e.g. the ECA, Italy).

When it comes to the special relationship between SAIs and their parliaments, one sensitive aspect is that the latter usually have a say in the setting of the SAI's budget. This is a delicate point, as budgetary resources directly affect the audit institution's effectiveness and capacity to carry out its duties. Vice versa, the mandate of most SAIs does not cover parliament. Some SAIs can audit parliamentary accounts, but only a few (including the ECA) can go beyond that and review performance aspects.

Moreover, in many Member States the head of the SAI is appointed by parliament (e.g. in Croatia, the Netherlands and Romania). In the case of the ECA, the candidate is proposed for membership of the ECA College by his/her respective Member State, and subsequently has to undergo a public hearing in the EP's Budgetary Control Committee and a vote in the EP plenary. These hearings are thorough exams in which the candidate is quizzed by MEPs about issues such as their motivation, knowledge of EU budgetary rules and auditing, but also their personal finances and ethics. The Council then appoints the Members, taking the EP vote into account. Contrary to many of the Member State SAIs, the College of Members, rather than the EP or Council, elects the ECA President, for a renewable period of three years.

### **Providing evidence and more**

SAIs serve as key providers of information to parliaments, which particularly value the evidence provided because of the SAIs' unique position, and mandate, which gives them extensive rights to access information from auditees. This enables them to provide high quality analyses, in particular where parliaments do not have sufficient opportunities to conduct their own investigations.

In some countries, government ministers or even private individuals/organisations may ask the SAI to carry out specific audits. With a few exceptions, however, SAIs are not obliged to undertake such audits. This is also true when it comes to suggestions by the parliament. In general, audit suggestions by parliament are fairly likely to be taken into consideration. This is also the case for the ECA, to which the EP's Committee of Conference Chairs (CCC) submits its audit proposals once a year. Some SAIs, for example in Bulgaria, Hungary and Slovenia, are even obliged to take on a certain number of audit proposals made by parliament. This function offers parliaments the opportunity to obtain valuable insights, geared towards their own timeline, which they can use as a basis for their legislative work. In turn, this assures the relevance of the SAI's work.

### **Discharge procedure**

A further special characteristic of the SAI-parliament relationship is linked to one of the parliamentarians' main tasks: scrutinising how the government spends public money. Here, the situation at European level is very similar to that in many of the Member States. Each year, the EP needs to grant discharge to the European Commission, other EU institutions and agencies and bodies that they have spent EU funds properly and in accordance with the applicable rules, based on a recommendation from the Council.

The ECA makes available relevant information for the discharge procedure in its audit reports, which provide MEPs with valuable facts and data on the basis of which they can decide whether or not to grant discharge.

This is similar to the situation in some of the Member States (e.g. Belgium and Germany), where the national parliaments can take their SAI's annual report as a basis for their decision on whether or not to grant the government discharge. At EU level, the auditors' reports have given the EP reason to refuse (or threaten to refuse) to grant discharge to a number of EU agencies and bodies. The most famous case was that of the Santer Commission in 1998, in which the budgetary discharge procedure ultimately forced the Commission to resign before the discharge procedure was completed.

### **Auditing the auditor**

In total, the EP – and in particular its Budgetary Control committee – considers more than 50 accounts every year, after which it decides to grant, postpone or refuse discharge for each EU body individually, including the ECA. The ECA's audit reports are an important source of information for MEPs, as its unique position within the EU framework provides it with extensive rights to access its auditees' information – its main auditee being the European Commission. The ECA, as an EU institution itself, is obviously also subject to this annual discharge procedure. This leads to the question: who audits the auditor? As in some of the Member States (e.g. Estonia, Slovenia), the ECA accounts are checked by a private sector auditor.

## Building trust through robust evidence and analysis

SAIs are in the trust-building business, and the ECA is no exception to the rule. The EU's financial and regulatory watchdog sends its audit reports to the European Parliament (EP), the Council and national parliaments, just as the reports by national SAIs are dealt with by the Member States' parliaments. At the European Parliament, these reports and their findings and recommendations are debated in the various committees. In general, the EP's Budgetary Control Committee (CONT) is the ECA's primary stakeholder and has the first right to consider the ECA reports. Increasingly, however, reports may also be presented to the EP's specialized committees, which deal with specific policy areas. As an important element of these debates on the ECA reports, ECA Members, often accompanied by expert auditors, present the audit findings and recommendations from the audit reports for which they are the reporting member at a hearing before the parliamentary committees. Finally, in October each year, the ECA President presents the Annual Report, which contains the Statement of Assurance, first to the Budgetary Control Committee and subsequently to the EP plenary. These presentations always take place in the presence of the auditee.

Apart from making themselves available to the EP, the ECA's main stakeholder, the ECA Members frequently travel to the EU Member States to present reports to the national parliament and governments.

The practices according to which the head of an SAI or its staff may be heard in parliament differ between Member States. In Ireland, for example, the Comptroller and Auditor General attends meetings of the parliament's Public Accounts Committee as a permanent witness. In Austria, the president of the SAI is entitled to participate and to be heard in a range of parliamentary debates on the SAI's work, whereas in Spain the parliament discusses every audit report published by the SAI with the SAI's president in a hearing of the standing joint SAI-parliament committee. In some Member States, such as Belgium, the auditee is also invited to attend the parliamentary hearings.

## Impact of the SAIs' audit work

Of course, the main goals of any SAI are to contribute to better financial management, support parliamentary scrutiny, and help governments to improve their policymaking. To be able to create this added value, SAIs continuously seek new ways to further develop their audit methodologies and to publish ever more useful products. In the end, an audit report is only useful when it creates actual impact, meaning that the SAIs' recommendations are not only accepted, but also implemented by the auditee. Because, in principle, parliament, government and the SAI should all work towards the same objective: to build a better society and to make sure public resources are used in the most effective, efficient and economic manner possible.

### Box 1 - A handbook on the 29 SAIs in the EU and its Member State

In 2019, the ECA published *Public Audit in the European Union*, an online information portal for anyone who is interested in the 29 EU supreme audit institutions (SAIs).

The information provided in *Public Audit in the European Union* underlines the essential nature of modern-day public audit bodies in our Union and illustrates their contribution to the effective functioning of our democracies. By setting out the differences and similarities between EU supreme audit institutions, it shows the rich diversity that is such an important quality of the European Union and one of its key assets. The information was collected in close cooperation with the various SAIs, and the ECA is grateful to them and their staff for their support. To celebrate the launch of this online portal, which will be updated on a regular basis, the ECA issued a limited number of hard copies in January 2019. A PDF version of the portal is available [here](#).

We hope that this portal attracts the interest of auditors, policymakers and legislators across the EU and beyond. With it, we also hope to make a valuable contribution to ongoing research in public audit.



# 'You don't really think climate is going to be a big thing, right?'

## Building Bridges in a changing EU political landscape

By Friso Coppes and Astrid Smeets, Bureau Brussels



Source: Shutterstock

The EU is in a period of major transition period: the political environment is changing dramatically – from both an institutional and a policy perspective. We need only think of the possible impact a Commission's 'Green Deal' may have. What does all this mean for the work of public affairs advisors who are well present in Brussels? Bureau Brussels is a young boutique public affairs consultancy situated at the heart of Europe. With 25 years' experience in European public affairs, Friso Coppes is partner at Bureau Brussels and expert in managing relationships with the EU institutions and stakeholders. He and his colleague Astrid Smeets shed some insight on the functioning of public affairs and underline the need to strengthen the dialogue between the EU and its constituents.

### Facing a new reality

Since 1957, the EU has been a work in progress. This year marks a major transition period in Brussels: the newly elected European Parliament took office in July 2019, the new College of Commissioners could move into the Berlaymont as early as next month, and the European Central Bank and the European Council are both set for new leaderships. Along with these institutional changes, new EU policy priorities were identified, with climate and sustainability topping the EU's agenda, touching upon all other policy domains. Yet, at a meeting at the end of September 2019, a relevant party was still not taking the EU's intentions to act on climate seriously. This points to a lack of effective dialogue – or perhaps even a communication breakdown - between the EU and its constituents. Moreover, it shows that the changing European political landscape will not only affect the upcoming policy agenda of the EU, but also pose a new challenge for European public affairs advisors, prompting a significant change.

### 'Those lobbyists'

The public affairs branch covers a wide domain of activities representing the interest of constituencies – inter alia, industry, stakeholders, trade associations – in policy making. In Brussels, the public affairs branch facilitates the dialogue between the EU institutions and external stakeholders, thereby helping to develop policy that considers and improves constituents' daily operations. The process of public affairs seems simple: first, public affairs advisors – those lobbyists – observe a policy development and spot an opportunity to contribute to the debate. Second, often they need to make their constituents – their clients – understand the impact this development could have on

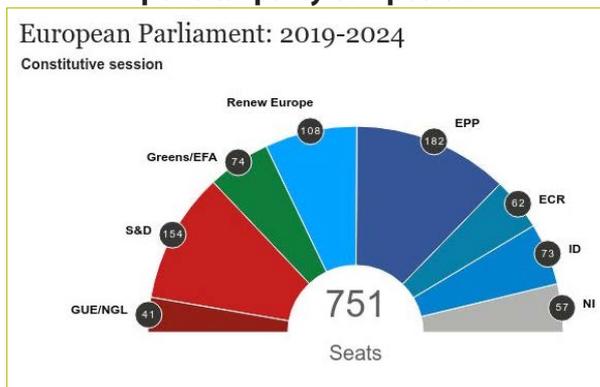
their daily operations and encourage them to join the debate. Then, together with their constituents, they develop a message. De facto, the public affairs branch facilitates the exchange between constituents and policy makers. However, for this exchange to be successful, both sides need to get to know each other. Hence, the main challenge for public affairs advisors is the second step: they are normally so far ahead of their constituents' daily operations that it is often difficult for them to make the latter aware of and involve them in the pressing policy issues evolving in the ever more complex and faster changing political landscape of the EU.

### The EU institutional and policy landscape in changing times

From an institutional perspective, the EU is facing a major transition period. First, the European Council has a new leader, Charles Michel, who will take office in December 2019. Considering that the Council determines the EU's overarching political priorities and that every year six to seven Member States have national elections, it can be argued that its members' political attitudes towards the EU and thus therefore, the EU's overall political direction are somewhat unpredictable. .

Second, the newly elected European Parliament took office in July. The results of the election leave the EU with the challenge of navigating a politically more fragmented

**Figure 1 – European Parliament 2019-2024 political party composition**



environment than in any previous parliamentary term. For the first time, the two main political parties (Christian democratic EPP and the social democratic S&D) lost ground and did not secure a combined majority. Whereas the EPP power base has moved towards central and eastern Europe, that of the S&D has shifted southward. The fragmentation among and within political groups will make stalemates more likely, hampering the Parliament in passing legislation.



Source: Peter Schrank, Schrankcartoons

*The new European Commission will be the most political yet.*

Lastly, the next European Commission will (probably) take office in December. The new structure of the Commission, which, according to President-elect Von der Leyen 'focuses on tasks not hierarchies,' consists of eight Vice-Presidents, of which three Executive Vice-Presidents will have a double function, as they will also lead one of the three core priority areas of the Commission's agenda.

The changed institutions make up one part of the new European political landscape, along with changes within the EU's priority policy areas. Von der Leyen is significantly increasing the policy ambition of the EU on energy, climate and environment and proposing, inter alia, to:

- raise the EU's 2030 climate targets from 40% to 50 or even 55%;
- establish a European Green Deal in her first 100 days in office to enshrine the 2050 climate-neutrality target into law;
- extend the Emissions Trading System to other industry sectors;

- create a Sustainable Europe Investment Plan;
- introduce a carbon border tax.

Von der Leyen has underlined that she wants 'the European Green Deal to become Europe's hallmark. At the heart of it is our commitment to becoming the world's first climate-neutral continent.' This ultimately means that action on climate and sustainability will be integrated and visible in all other policy domains, which is in line with the environmental integration principle in Article 11 of the Treaty on the Functioning of the European Union. Indeed, climate legislation will touch upon transport, finance, education, agriculture and health, to name but a few.

### **'You don't really think climate is going to be a big thing, right?'**

One of the great challenges the EU is facing is communicating with its constituents. The European Commission has called for dialogue, launching a multi-stakeholder platform. However, at a meeting at the end of September 2019, a prestigious independent governmental agency from one of the Member States posed a remarkable question: 'You don't really think climate is going to be a big thing, right?' In light of the aforementioned ambitions of the new College of Commissioners, this reaction left one flabbergasted. It shows that the dialogue between the EU and its constituents is still undoubtedly ineffective.

This is where public affairs advisors come in. They work to build bridges between the EU and its constituents. Lobbyist help constituents to define and formulate the concrete 'asks' to put to the institutions that would improve or save their daily operations. Public affairs advisors facilitate the exchange of expertise: the communication between the expert in the legislating office and the expert in the field, who are both working on the same issue.

Information flows both ways. Public affairs advisors help their constituents to understand that domestic legislation is, first and foremost, influenced or even made by EU legislation and therefore directly affects them. Despite climate topping the agenda in Brussels, constituents are still questioning the EU's intentions to take concrete action on environmental issues. This shows a need for a better and clearer dialogue to gain mutual understanding on where the legislators and operators are at, what the future vision is and how this can be implemented through those daily operations in order to reinforce the democratic legitimacy and sustainability of the EU.

#### **Box 1 - Why is there a European Union? And how much does it really cost?**

Just try asking these questions at home. You will probably be met with total silence as an answer.

Even though the answers seem to be evident to many working in the EU institutions, they might be too high a level for the constituents' bottom-line interest. One needs to answer these questions from the perspective of the business owner, the corner shop worker or the railway operator. EU legislation touches them in every way imaginable: as the European integration deepens, Brussels as the EU capital and Member States' capitals become one – there is practically no national policy domain without an EU dimension. However, the entrepreneur will only see the value of the EU when he/she understands why there is a European Union, and how it directly affects him/her.

- Why is there an EU? Many constituents probably do not even know that the EU was created to end war and secure lasting peace by economically and politically uniting European countries;
- How much does it really cost? With overall taxation of around 50% of GDP, 1 % goes to the EU (see Figure 2). Moreover, most of that 1%, is returned to the Member States in the form of subsidies and funds. So, the EU costs practically nothing!

How can we strengthen this dialogue, though? The only way is to truly and honestly engage with constituents. This has been said before, but clearly has not been put in practice effectively enough. Moreover, and not less importantly, Member States play a

**Figure 2 – 2018 EU spending as a share of gross national income (GNI) and general government spending**

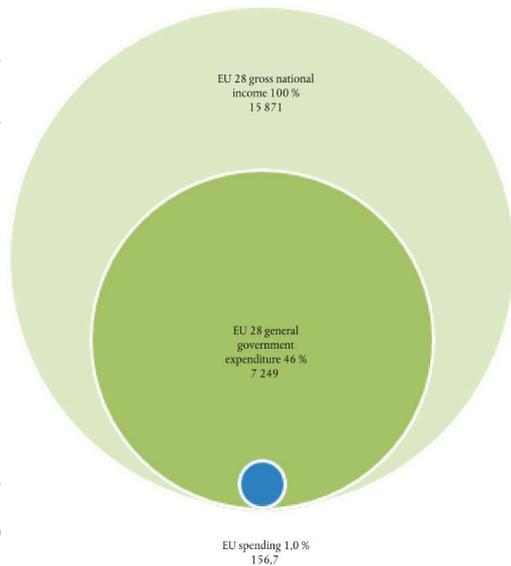


Figure presented in the ECA 2018 annual reports, p. 18

significant role in this dialogue, bearing as much responsibility for its ineffective and deficient functioning as the EU institutions. National ministries are regularly twisting the truth about budgetary or expenditure issues to misuse this information for their own political gain in domestic polls. This is a major threat to the credibility of the EU, further obstructing the dialogue between policy makers and constituents.

In fact, the EU is a continuing work in progress, and it always will be. With the change in political landscape, and climate mitigation woven throughout all existing and upcoming legislation, the constituents will ask to be guided, but also to be heard.

### Climate is indeed a big thing!

With climate change now high on the agenda and the first green deal set to be on the table within the first 100 days of the Commission's College taking office, this will have an effect on public affairs activities. While climate used to be a peripheral interest for many constituents, it will now inevitably become a bottom-line interest and inch its way towards the top of the list, whether you like it or not. To avoid falling behind and stay successful, constituents have to adapt to the rapidly changing political, economic, social and environmental context of the EU.

So, where does all this leave us public affairs advisors? What is our role in the changing EU political landscape? In a nutshell, it is necessary to construct new, and strengthen existing, dialogue between the EU and constituents so that every governmental agency, company and stakeholder understands the impact that EU policy and legislation will inevitably have on their daily operations. Even today, there is still a tremendous lack of knowledge, let alone understanding. Facilitating proper dialogue with constituents and stakeholders will require serious effort. The ECA makes an essential contribution to strengthening the democratic legitimacy of the EU. However, since Member States' ministries are regularly concealing the real picture about issues of EU expenditures and the EU budget to their citizens, the question arises as to whether the ECA should become more active in putting the real figures even more into perspective as shown in Figure 2, thus taking a public stance in fighting for honesty.



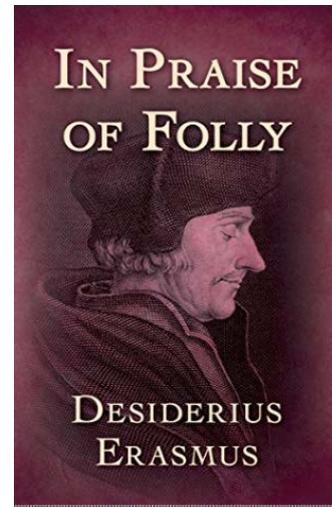
Source: Shutterstock

# ECA Journal Long Read

## In praise of the budget

By Arūnas Dulkys, Auditor General, National Audit Office of Lithuania

When it comes to public budgets, many actors play a role, whether at local, regional, national or EU level. At the EU level, for example, both the European Parliament and the Council adopt the budget, upon a proposal from the Commission. Subsequently, the European Parliament - after consultation with the Council - provides discharge to the Commission on the implementation of the budget. In this discharge procedure, the audit reports from the ECA also have an impact. Generally speaking, most people consider many budget deliberations to be rather technical. Arūnas Dulkys has been Auditor General at the National Audit Office of Lithuania since 2015 and for a long time has taken a keen interest in overseeing the rational use of public funds. He looks to some historical sources for inspiration, in particular books by Desiderius Erasmus, as he did for the presentation he gave in 2018 at a conference entitled 'Signals 2018.' He finds that many discussions related to our communal purse – the budget – go a lot further than just the money and have an impact on the essentials of public life. They reflect choices and insights that go far beyond sheer numbers – in fact touching upon the essence of governance.



### Budgets expressing a bond

'In sum, no society, no union in life, could be either pleasant or lasting without me' — these words were spoken by the eponymous character 'Folly' created by Erasmus of Rotterdam in his work *In Praise of Folly*. In the 21st century, these words may be applied to budgets that unite people. Indeed, we, all together, contribute to the state budget, and make decisions on what to spend it on, as well as how to account for it. But is this union lasting? Or pleasant?

At the Centre for Civil Education in Vilnius, visitors come across Erasmus of Rotterdam in the context of an exhibition about the budget. More than 500 years ago, his authority was greater than that of the then Pope's. As one of the first fighters against corruption, his voice called for reforms for the public good in Europe. In 1509, in a flash of inspiration over a period of seven days spent in England at the home of Thomas More, he wrote the satire *In Praise of Folly*, in which he allowed his creation — the character Folly — to praise herself in person. He used an unusual literary form to evoke his readers' critical thinking. The book was a bestseller at the time. However, several decades after

### ECA Journal Short Read

**Budget as a cornerstone of mutual trust** - Budget as a communal purse can trigger feelings of both hope and concern, with citizens eager to understand how a budget will affect the money in their pocket. When budgets are not formulated with Erasmus's idea of 'the public good' in mind, a key source of trust between the state and its citizens is undermined.

**Characteristics of a credible budget** - A credible budget is managed in line with a robust fiscal policy; goal-orientated; transparent and accessible; and implemented with quality and integrity in order to ensure full accountability.

**Picking up the story that a budget signals** – Key considerations for citizens:

- ask the *why* more often than the *how much*;
- a citizens budget is reflected by its governance arrangements, aimed for the interests of the public good instead of serving personal wishes;
- be aware that out of the variables price, quality and speed only two can be attained at the same time. A modest budget can be stronger on quality and realism;
- what starts poorly ends poorly, so pick up early signals – e.g. in audit reports - and act upon them.

**Budget governance and impact** – The impact of smart budget governance is far ranging. Appreciation from citizens – or the lack of it – for the budget and its implementation are important signals. A key element is how those who govern handle conflicts of interest: do they prioritise the public good above anything else?

his death, the 'powers that be' lost their patience and banned all of his writings. This should come as no surprise, as Erasmus' idea of "the public good", as he would have put it, affected their ability to line their own pockets.

### **Communal purse as an agreement on public interest**

Can Erasmus inspire us today when we consider matters concerning our main communal purse — the budget? The budget is like a pasture of public goods where everybody wishes to graze. Erasmus acknowledged this when writing: 'In brief, go whither you will, among prelates, princes, judges, magistrates, friends, enemies, from highest to lowest, and you'll find all things done by money.' The word 'budget' is enchanting; upon the mere mention of it, the pockets of many of us are filled with expectant hope. However, hopes are often broken by the perpetual problem of common resources and the tragedy of the commons. Paraphrasing Erasmus in *The Complaint of Peace* (*Querela Pacis*) written 500 years ago, one could say that if everyone solely serves their own personal wishes, this will be harmful to society. Therefore, no one will manage to achieve their intended goals. Well-known people and the state authorities should judge everything in the public interest.



Drawing depicting Desiderius Erasmus

### **Drawing depicting Desiderius Erasmus**

It is a pity that it was only as recently as 50 years ago that economists started to analyse this phenomenon more deeply. The American scientist and philosopher Garret Hardin analysed the example of pastures commonly used by herders in England: a common shared pasture heads toward inevitable ruin because of the individual actions of the self-interested herders. Since each herder's incentive is to gain the utmost individual benefit, this leads to the destruction of the pasture. Freedom in a commons brings destruction to all. The concept of the tragedy of the commons could be transferred to both regional and global levels.

This tragedy also affects the budget, which is an agreement and a contract between a citizen and the state. The state budget is also the main political document of the state authorities, making plans and future aspirations a new reality. If the budget could talk, it would speak of itself in Erasmus' words: 'Briefly, no society, no association of people in this world can be happy or last long without my help.' The state budget is therefore the cornerstone of mutual trust between the state and its citizens. The conclusions of the work carried out over the last decade or so by the Organisation for Economic Cooperation and Development (OECD) Working Party of Senior Budget Officials were published in 2015 in the 'Principles of Budgetary Governance,'<sup>1</sup> revealing which budgets would deserve praise.

### **Key features of a praiseworthy budget**

First of all, a praiseworthy budget is managed in line with a clear, reliable, and predictable fiscal policy. Erasmus stated that 'Princes do not love to hear the truth, and therefore wise men must be very cautious how they behave themselves before them, lest they should not take too great a liberty in talking what is true, rather than what is acceptable.' Every year, when considering what the state budget should be, we inevitably return to the term 'reserves.' Those who like to regard themselves as being educated are not afraid

<sup>1</sup> <http://www.oecd.org/gov/budgeting/principles-budgetary-governance.htm>

to consider such complicated concepts as ‘pro-cyclical policy’ or ‘fiscal space.’ However, it is possible to look at things more simply. Take Denmark — in good times, it accumulates its reserves for a rainy day; which is a sustainable and stable approach. Even boring! Meanwhile, the Lithuanian budget has seen a lot during its lifetime; for instance, during the period between 2004-2008, it was particularly overstretched and torn by different macroeconomic imbalances. The budget at that period was happy to turn cyclical revenue into long-term liabilities. At the end of the ‘party,’ it woke up subdued, indebted, and supported only by increased taxes.

One more feature of a praiseworthy budget is orientation towards results and strategic goals. Money means influence. And so, the budget is also influential. For instance, in Austria, for every single budgetary allocation in excess of a €100 000 threshold, decision-makers assess the likely impact on: the environment, gender equality, consumers, children, young people, as well as its administrative burden and whether it is in line with strategic goals and priorities.

In Lithuania, the term ‘impact assessment’ is tossed about at every opportunity as if it is somehow inherently sophisticated. It is not only carried out when money is distributed — the impact of every adopted legal act is measured. In Lithuania, there is an obligation to carry out an assessment on how the proposed changes are likely to affect business conditions and development, what impact it will have on the crime situation, and on corruption. It is also necessary to provide information on the costs of the implementation of the law in question. Additionally, of paramount importance is whether or not the legal act has been prepared in line with the requirements of the state language of the Republic of Lithuania. Erasmus would probably sigh — ‘We have as many grammars as grammarians,’ acknowledging that ‘...even grammar alone is work enough for any man for his whole life.’

The difficulty in Lithuania is that, in theory, a comprehensive impact assessment could be provided, along with at least several other alternatives and a cost-benefit analysis; however, there is no criterion expressed in monetary terms that could serve as the basis for deciding whether or not it is necessary to carry out an impact assessment of the adopted legal regulation. In Lithuania we have the following criterion: a comprehensive assessment must be carried out when hitherto unregulated matters are becoming subject to new legislation or when essential changes are made to existing legal regulations. This therefore meant that it was not necessary to conduct an impact assessment for the legal regulation of the structural tax reform adopted in Lithuania in 2018, because it was not a ‘new’ regulation. This is in spite of the fact that the planned changes involved €500 million, rather than €100 000.

It is also true that in Austria an IT system automatically calculates the impact of decisions related to the budget. Austrians boast that there is almost no need for work at all — lucky them with those systems! In Lithuania we have only just (perhaps for the fifth time since regaining independence) come to an agreement regarding who, in principle, will be responsible for IT policy.

Other notable features of a praiseworthy budget are openness, transparency, and the accessibility of its data. The budget can provide direction; it is like a mirror. For example, we most often agree that in practically every area, preventive measures have a greater effect than investing in the correction of errors or remedial fixes to unwanted situations. This can be reflected in what is known as a *citizens budget*. Simply talking about increasing resources in a given area should not be considered transparent and open without providing the general context, or explaining the way the allocation will affect other sectors in which citizens also work. You might have heard about the shareholders of a private company who, within just half an hour, made the decision to open a new factory, but then spent two hours considering whether it would be worthwhile buying a coffee machine! Does the same not happen with our state budget?

Billions have already been allocated to Lithuania's growth and the formation of a favourable economic environment. Have we invested this money in an efficient manner? Invested or absorbed it? Where do the rivers of this money flow? In our present reality, it is no longer enough for citizens to live in a well-maintained environment, to enjoy a central city square or pavement with a cycle path leading to a cemetery — citizens now need self-fulfilment. This is why the World Bank, IMF, and OECD all urge us to develop a simple, understandable *citizens budget* to enable people to understand which rivers flow and where. Erasmus, however, liked the ancient Greek tragedian Sophocles' saying, 'Not knowing anything is the sweetest life.' Ignorance, indeed, may be bliss.

The next feature of a praiseworthy budget is the integrity and quality of its implementation. It is important to consider budgetary accountability. Erasmus drew attention to the fact that '...nothing is more trifling than to treat of serious matters triflingly, so nothing carries a better grace than so to discourse of trifles as a man may seem to have intended them least.' The Dutch, for instance, have no problem with accountability; every year, the third Wednesday in May is their 'Accountability Day'. Their annual reports account not only for how much money has been spent and on what; the specific goals that were envisioned and to what degree they have been achieved in the past year are also discussed.

Lithuania is even more interesting in this respect: reporting on performance and on money spent (i.e. budgetary spending) are carried out separately — as if there were two different Lithuanias. Thus, performance is accounted for in March, whereas financial statements do not reach the Parliament until October — at the same time as the draft budget for the next year. Therefore, there is no possibility for budgetary decision-making to take into account the most up-to-date information about the country's public finances. Erasmus listens and shakes his head: 'I know not [...] how he could have the key of knowledge that had no knowledge himself.' Such a separation of accountability has no parallel either in the private sector or international practice. To confuse citizens even more, we fund social services from health insurance, and state liabilities from social services, and return to health care to fund state property. Do you think it is necessary to get rid of that confusion? Why? It is obvious to everyone that there is too little money in the budget but taxes are too high.

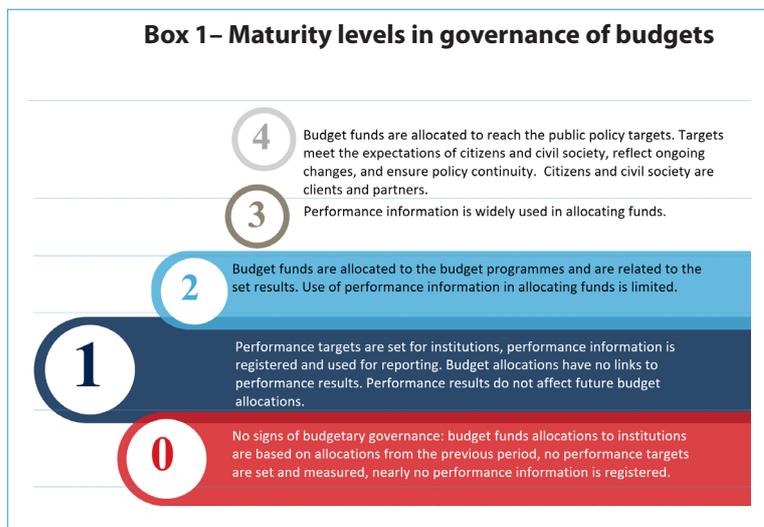
### **Listening to a story of thousands or of millions – morals decide**

We should ask how it is possible to learn whether a country is wealthier or poorer compared to the previous year. Only the sets of national financial statements can show the true and fair view of the country's financial state. In Lithuania, since 2010, the whole public sector has introduced accounting methods according to new standards based on accrual accounting. Several years ago, the accounting maturity of the 28 EU Member States was evaluated. Lithuania came fourth! What is there left to do? We have to agree the deadlines for the submission of accountability reports in order to have the sets of financial statements ready when considering the next year's budget and be able to use them in decision making.

Let us listen. Let us hear. Let us act. The Budget sends signals with numbers. Auditors speak about millions of euros, even billions. So why is it that stories about thousands receive more attention in the public arena? It is because, together, we are making the first highly moral and natural step. We place value on morals and can expect public outcry to ensue when trust is broken, even when cases involving the inefficient usage of public funds actually only amount to a few thousand euros or less. However, when facing really big numbers, we lose our courage. Our eyes cannot see where to mark those millions and billions on our moral ruler... Erasmus nods sadly that 'it is a lesser crime to kill a thousand men than to set a stitch on a poor man's shoe on the Sabbath day.'

I would not be objective if I did not acknowledge that the process of change in budget governance in developed and forward-looking countries has taken between 20 and 50 years. Should we be falling asleep? Should it console us that in Austria, it took about a decade to come to an agreement concerning the start of budget governance reform? It appears that it was important for politicians that the dates for the implementation of the reform would not coincide with the dates of their term in office, or as Madame de Pompadour, the lover of King Louis XV of France put it, 'Après nous, le déluge' (After us, the flood). Speaking frankly, there is a suspicion that politicians regarded the changes in budgetary governance not as a means to assist the state but as a way to punish those who were elected afterwards... Thus, budget governance may remind us of Hans Christian Anderson's tale *The Emperor's New Clothes* — however, it is not only the Emperor who has no clothes, but all of us.

Through an audit report published at the end of 2016, the Supreme Audit Institution of Lithuania sent out a clear signal concerning the importance of changes in the governance of the budget. Also, in 2018 a maturity evaluation of Lithuanian budget governance was carried out. Based on almost 100 public audits, 70 percent of the observations demonstrated that our budget maturity is higher than zero (see **Box 1**) but it has not yet stepped outside the boundaries of the first level. It is worth pointing out that no country has ever reached the highest — the fourth — level of maturity. Nevertheless, it is not always necessary to compare ourselves with those weaker than us or to maintain that the time has not yet come to act.



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### Key considerations regarding a budget

What should we start with?

- First, now is the very time for changes in our culture of debate — we should ask *why* more often than *how much*, and not only speak about the possible implications, but in the first place clarify the reasons why.
- Second, let us bear in mind that the source of the river of vices and corruption lies within the governance of the budget; therefore, it follows that for the sake of the public good, a *citizens budget* is absolutely necessary.
- Third, let us get rid of our bad habit of addressing one and the same problem at the same time; we are all guilty of this.
- Fourth, out of the three variables of price, quality, and speed, it is only ever possible to have two at the same time. Therefore, a budget that is modest in monetary terms could be strong on quality.
- Fifth, let us learn to say no. What starts poorly ends poorly. Therefore, we are all encouraged to read public audit reports.

Furthermore, Erasmus warned in his work *Colloquies* (Colloquia familiaria) that, 'Monks who mind books much are not so obedient, they answer again out of decrees and decretals of Peter and Paul.' On the other hand, knowledge and truth are more frightful than Satan, not only for the authorities but also for some people. It is not for nothing that, 'St Bernard interprets that mountain whereon Lucifer had fixed his habitation to be *the mountain of knowledge*.' The view from the mountain of budget governance

knowledge can frighten citizens, as it will become clear that the net assets of the state are not as they seemed at the foot of the mountain. It will therefore be necessary to deprive ourselves of part of the resources and leave it for the citizens of the future. Besides, a *citizens budget* will reveal that it is not only the authorities but also every citizen that has power, and more importantly — responsibility. Maybe it is more attractive to live at the foot of the mountain without having such personal responsibility? According to Erasmus, 'each truth has to sail its own waters.'

### **Above private interests...for the public good**

Not only will smart budget governance make a country, or the EU, more competitive, but it could also form the fundamentals of our national security. Let the words *citizens budget* be uttered more often than *citizens' complaints*. Erasmus was categorical: 'He that takes the sceptre in his hand should manage the public, not his private interest.' However, in reality we often see the opposite. Let us admit that often we write very smooth template responses to an ordinary citizen's complaints, but we speak about the budget in a rather confusing manner. Most of us engage in emotional debate about the public good; however, in reality we do not actually understand the essence of the contract between the citizens and the state. In his work *The Complaint of Peace* (*Querela Pacis*), Erasmus interpreted it in this way: it is easiest to conquer those who do not know what the contract is and then force them to obey.

Maybe the first Roman Emperor Augustus Octavianus could awaken us from our bureau-pathological coma? He has been recognised as one of the most noble-minded leaders in the history of mankind and was prepared to sacrifice his throne in favour of the public good. It is assumed that Erasmus of Rotterdam has preserved for humankind the words uttered by the Emperor more than two thousand years ago: 'Let my children die if anyone else can better manage and take care of the public good.'

# The future is a discussion space!

## Interview with Florence Gaub, Deputy Director of the European Union Institute for Security Studies (EUISS)

By Gaston Moonen and Gina Wittlinger, Directorate of the Presidency



Florence Gaub

Foresight capacity is high on the political agenda of the European Union institutions, and not only at the ECA. This is also underlined by the portfolios proposed for the new European Commission: Maroš Šefčovič, Commissioner-elect for Interinstitutional Relations and Foresight in the Von der Leyen Commission. A source of inspiration for him will certainly be the work of the European Strategy and Policy Analysis System (ESPAS), a network of officials from across the EU institutions working on foresight issues. Florence Gaub, Deputy Director of the European Union Institute for Security Studies (EUISS) was the lead author for the latest ESPAS report, *Global Trends to 2030: Challenges and Choices for Europe*, which was published in April 2019 as a contribution to support policy and decision makers as they navigate the world into 2030. She presented the report at the ECA on 10 July 2019. Gaston Moonen and Gina Wittlinger, a trainee in the Directorate of the Presidency, interviewed Florence Gaub about the impact of strategic foresight on policy decision making, her methodology for writing the report and about ways to develop the ECA's own capacity to 'imagine the future.'

### Bridging gaps in awareness

On 10 July 2019, Florence Gaub gave a presentation at the ECA, sharing insights from the most recent ESPAS report [Global Trends to 2030: Challenges and Choices for Europe](#). Her presentation was interactive and challenged prevailing beliefs about the future. The report, she explains, tries to look at issues from a different reference point. 'Your role in foresight is not to be the most accurate but the most surprising.' She underlines that the real contribution of foresight lies in providing a new point of view on a certain topic or interlinking it with something that nobody thought of before. 'The added value of foresight is in bridging gaps in awareness.'

#### Box 1 – About EPSAS

The European Strategy and Policy Analysis System (EPSAS) provides a framework for cooperation and consultation, on a voluntary basis, to work together on medium and long-term trends relating to the EU. It is a consortium of four partners - the European Parliament, the Council of the European Union, the European Commission and the European External Action Service - and five observers - the European Economic and Social Committee, the Committee of the Regions, the European Investment Bank, the European Union Institute for Security Studies and the ECA.

This, according to her, also includes hindsight. 'A good foresighter,' Florence Gaub points out, 'constantly challenges his own assumptions. You need to break out of the mental silos you were trapped in and look at the world in a new way. This keeps your mind young.' She thinks that foresighters should also go back to their own work. 'Ask yourself: What did we do wrong and how can we do this better in the future?' For Florence Gaub it is not a very common practice to review former foresight studies and reports. People are afraid of having been wrong in the past. 'We need to abandon that logic of getting the future right or wrong. We will never know, because the future is inevitably unknown. Being wrong should be as much a part of foresight as being right.'

### The future as a result of our choices

Florence Gaub: 'I always say that in foresight you have done your job not when you were right but when somebody acted upon what you said. Unfortunately, there is always a gap between those who do foresight and those who they do it for.' She explains that one way to overcome that gap is to cut down foresight conclusions into actionable pieces. In the report, this was done by formulating the last section of the document as questions. 'The report's impact lies in raising these questions and hopefully they will be picked up and acted upon.' She sees a clear challenge in making foresight policy digestible. This is why, she adds, the report is magazine-length and not 100 pages. 'We hope that people will read this faster and engage with it.'

“ in foresight you have done your job not when you were right but when somebody acted upon what you said.



Referring to the immediate impact of the report, Florence Gaub notes that the report came out in April 2019 and that it might be too early to talk about effects already in July. She underlines that now is the prime time to see its impact, as the next Commission is defining its priorities. 'Several of the ideas mentioned in the report have already been picked up on.' She stresses that the report is not a political report as such. It is not tied to people. Therefore, it will survive changes in leadership. 'The idea was to come out with this before the elections to hand over the baton to the next generation.'

### Action vs Inaction

When talking about the role of foresight in providing solutions, Florence Gaub underlines that it is not a foresighter's role to be prescriptive. There had been some resistance to addressing concrete policy recommendations in the report. ESPAS being a consortium of nine institutions makes things more difficult. This is, she explains, also an accountability issue: 'The difference between foresight and policy making is that nobody can hold me accountable for what I once thought about the future. But Ursula Von der Leyen can be held accountable for the decisions that she implemented. They should be her decisions because she is the one responsible.'

Florence Gaub mentions scenarios as a way to convey implicit policy suggestions. 'This is,' she points out, 'also why scenarios are a bit tricky in the ESPAS environment. The two scenarios that we wrote, Action and Inaction, are not full-scale scenarios.' According to her, they still fulfil the role of scenarios. They suspend disbelief about the world that does not exist yet and take the reader into the world of the future. 'This future world then suddenly comes to life and engages you emotionally. Foresight is all about storytelling.' She adds that there is a lot of psychology involved. This is why the report is written in a more positive and optimistic way than most other products

“ Foresight is all about storytelling.

dealing with the future. She explains: 'I really wrote this with a particular reader in mind. I wanted the reader to walk away feeling empowered to take action. Simply put, I wanted the reader to feel like a super hero.'

### **A strong methodology**

To work in the area of foresight you need to be extremely organised in how you structure different elements. A proper methodology allows the writer to be creative and tell a story while not going overboard with it – serving as a safety belt for the foresighter. According to her, a common misconception is that, as the future is not real, people think they can write whatever they want. But foresight is not fortune telling. 'As the future is so infinitely possible in many ways, a good foresighter needs a very strong methodology.'

“*... a good foresighter needs a very strong methodology.*”

She explains that before starting to write the report she first came up with the methodology. The report differentiates between two types of trends, megatrends and catalysts. Megatrends last a decade or longer, are difficult to change and affect many people. Catalysts, on the other hand, are more present, move faster than megatrends and can be altered by policy decisions. Florence Gaub: 'You have to pick up the decision makers where they are and demonstrate that, although some things have long term effects, there are also medium term trends that affect decision making every day. They also need to react to these.'

After the Steering Committee had endorsed her structure, countless meetings in Brussels with expert groups on all types of topics followed. 'I felt that the things that came up repeatedly were the things people cared about the most.' When being asked how she managed this amount of information, Florence Gaub points out that thanks to the structure, she was able to prioritise and place things in the different categories. 'I felt like a human computer, just processing pieces of information and then seeing the linkages between them.' She adds that the trends mentioned in the report are of course not the only issues. They are a snapshot of how the people in Europe currently feel about global developments. 'The inevitable choice when you write a report is the painful one of not being able to include everything.'

She also elaborates on combining views of different stakeholders and the role of ESPAS in drafting the report. 'It is like working with a football team. Every institution has its own position on a topic. I see ESPAS not only as a generator of knowledge. I see it also as a mini-EU snapshot where you can see all of these future discussions. And there is a lot of discussion, sometimes also friction and even fighting. But at the end of the day everybody realises that no one can win the game alone.' She explains that the most interesting insights emerged from this friction. 'In the end', she points out, 'the future is a discussion space.'

“*In the end, [...] the future is a discussion space.*”

Florence Gaub's background goes back to being a specialist in the Middle East. 'My PhD was on post-conflict countries, for which I looked at data on post-conflict societies and conflict probabilities. That was my first encounter with trying to make the future a bit more predictable, because conflict probability is essentially that.' She points out that it is important to identify both longer terms issues and possible triggers that give them an impetus to accelerate.

### **Train your foresight muscle!**

Speaking about which skills characterise a good foresighter, Florence Gaub notes that you have to be open-minded and enjoy doing it. Other than that, it is more a habit than a personal characteristic. She adds that every human being has the capacity to imagine the future. 'It is deeply in the human psyche to think about what is happening next, how we can prepare for it and how we can improve it.'

“*It is deeply in the human psyche to think about what is happening next..*”

One of the challenges she mentions is that you have to break through your own bubble. 'We all have our own bubble of the news we read and the things we talk about.' She points out that foresight essentially means that you have to question your own assumptions. 'At first this feels uncomfortable, but at some point you realise that your role in foresight is not to be the most accurate but to be surprising.' She underlines that what is in the report are mostly things she did not think about herself two years ago. 'For every one of the points in the report I tried to find one or two more facts that go against common beliefs.' She considers this to be the real contribution of foresight.

She names ways to train our capacity to imagine the future, i.e. our 'foresight muscle'. Florence Gaub quotes the Greek Philosopher Archilochus: 'The fox knows many things and the hedgehog knows one thing.' She explains that a hedgehog is a super expert in one area whereas a fox knows a little bit about everything. According to her, foxes are better foresighters than hedgehogs. By being interested in as many things as possible, by connecting to friends, family and colleagues and learning from them, we can constantly develop our capacity to imagine the future.

She adds that even counterfactual 'what ifs' have proven to be effective in thinking about the future. Florence Gaub names a potential reason for this: 'Neurologists discovered that the place in your brain where the future is developed is the same place you store your memories. This means that the process with which your brain gives meaning, sequence and logic to information is the same, whether the information is real or not.' In other words, foresight is a practice everyone in an organisation can learn and train.

“ ... foresight is a practice everyone in an organisation can learn and train.

### **'Qual der Wahl'...for others**

The ESPAS report - *Global Trends to 2030: Challenges and Choices for Europe* - will be promoted throughout the EU institutions to make sure that the issues identified are flagged up. Florence Gaub: 'The added value of our report is that it is European and not trying to rival what, for example, the Americans are doing with the Global Trends Report they bring out.' She explains that it is European in how it looks at the world. 'But it is not so much a report about the future of Europe itself but how the people in Europe currently feel about global development.'

She underlines it is a very dense report, referring to what the report describes as seven megatrends, seven catalysts and seven priorities Europeans need to be worried about. 'Effectively, the challenge of making choices in terms of priorities remains a challenge for the decision maker and ultimately that is also a division of labour. We are there to think about the future and to define certain priorities. It is up to others, either the new European Parliament, the new Commission or someone else, to make the choices.'

## New ECA Member

# A former politician, but above all an audit professional

Interview with Ivana Maletić, ECA Member since 16 July 2019

By Derek Meijers and Gaston Moonen



Ivana Maletić

On 16 July 2019, Ivana Maletić succeeded Neven Mates as the new ECA Member for Croatia. From 2013 up until a few weeks ago, she was an MEP with a focus on financial and economic issues, cohesion and the EU budget. However, she does not see herself as a former politician. As an ECA Member, Ivana Maletić is keen to return to the audit profession so familiar to her from her time at the Croatian Ministry of Finance, where she was extensively involved in preparing Croatia for accession. Here we learn more about her background, professional interests, audit tasks and how she believes the ECA can provide added value, both for and beyond the EP.

### Changing perspective: from user to producer of ECA reports

Speaking with Ivana Maletić, she is clearly enthusiastic to have joined the ECA and be starting her new job. 'It is indeed rather different from being an MEP, where I had many people knocking on my door. It is for sure less hectic here, still busy, but in a different way. I am keen to do audits that will help and support people on the ground. Based on the excellent work done by our auditors, we can support and help towards promoting positive changes, also in the Member States.' As an example, she refers to capacity building in the Member States and the need for governments that support learning. 'With the knowledge and reports we produce in the ECA we can really support such capacity building, and stimulate that they get new ideas and introduce changes, important to make EU funds and EU regulations work better on the ground.'

Producing reports is one thing, getting them across is something else. Ivana Maletić thinks that ECA Members have an important role to play. 'Sometimes people are just used to doing certain things in a certain way and they do not see other possibilities and options. We are here to give them other views and somehow to enlighten them to see things in a different way and to find other, better solutions.' In addition to the 2018 Annual Report, she plans to present several other reports that the ECA has recently produced. 'They are really good and particularly relevant for Croatia, all the more since Croatia will have the Council Presidency from 1 January 2020 onwards. There will be many topics on the table for Croatia – especially the new Multiannual Financial Framework (MFF) - and our ECA reports will only help people to have a better understanding and be well prepared. They can use the arguments we have put on the table, coming from independent professionals whom everybody can trust.'

Ivana Maletić is very determined to reach out to the Council, although she also says that 'It is not enough to just go to the Council. You actually need to visit the ministries in the Member States.' In October 2019, she will not only visit the parliament in Croatia but also the Ministries of Finance, Regional Development, Agriculture and some of the agencies. 'We have many publications exactly relating to the work of these ministries. It is not enough to publish our reports and think that people in ministries will read them.' She intends to target the right people so that the arguments put forward in ECA reports will reach the right political level. 'Convince them that the arguments we present in our reports will help them to contribute to better discussions. Especially now, with Croatia becoming Council President, it is the right moment!'

“ ... It is not enough to just go to the Council. You actually need to visit the ministries in the Member States.

As an MEP, Ivana Maletić used ECA reports in her Regional Development (REGI) or Budget (BUDG) committees - I often used ECA special reports and reviews. In these two committees we often found ourselves referring to ECA documents in discussions.' This was, however, much less frequently the case for her work in the Committee on Economic and Monetary Affairs (ECON). 'Actually, I cannot recall a discussion in that committee with the ECA. I was very surprised when I found out that the ECA produces reports in that area, for example on competition issues, or some very interesting work on the Macroeconomic Imbalance Procedure [see page 45] of the Excessive Deficit Procedure. I think that if my ECON colleagues had seen reports on these topics, they would have liked to discuss them.'

“ For my work as an MEP [...] I often used ECA special reports and reviews.

She is keen to change this situation. 'From the ECA we can have, one to one, individual contact with ECON members, raise their awareness of the fact that the ECA covers topics of interest to them.' She thinks it is key to raise awareness: 'MEPs are surrounded by professionals who are very much aware of the importance of internal and external audit work on public finance information.' She plans to speak to MEPs she knows who are still in ECON, saying 'I know them well and will certainly raise this with them.'

### Starting as professional in finance...

Ivana Maletić's professional career started at the Croatian Ministry of Finance. In particular, she was involved in setting up and improving an accounting methodology for the ministry. This triggered her interest in training in accounting and obtaining certificates and degrees in accountancy and audit. 'When I was working in the Ministry of Finance – about 20 years ago - we did not have internal auditors. For me, a situation where we internally did not have someone to help us spot our weaknesses was very bad. I was happy to work on introducing and implementing, together with my colleagues, of not only the internal audit function, but the whole public internal control system.' During the accession negotiations with the EU, she was asked to establish the so-called National Fund in the Ministry of Finance, the unit for management of EU pre-accession funds. 'I was learning and doing, wanted to know all about the work of auditors and how they can help to improve systems. Somehow everything happened in parallel.'

I got certified as a public sector auditor and accountant, and when the auditors from the European Commission came to Croatia I actually understood what they were looking for.'

Ivana Maletić was then appointed Secretary of State at the Ministry of Finance. 'Professionally, this was a promotion - but at a certain level, it becomes political. However, since I was not politically affiliated, I actually did not want to accept the political function the Croatian government offered me. I wanted to remain professional, not become a politician.' Nevertheless, she decided to take up the job as Secretary of State, in order to contribute to Croatia's preparations for EU accession. Ivana Maletić sighs: 'But it was work from early morning until late in the evening, my family did not see much of me during this time.'

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*I wanted to remain professional, not become a politician.*

### ... with an intermezzo in politics...

Having been appointed to a political post due to her professional background, Ivana Maletić worked for almost four years as Secretary of State. 'Then elections came and although I was appointed on a 'professional' ticket, I could not continue as State Secretary since the government who appointed me lost the elections.' She left the ministry and started a non-profit organisation called 'Centre for Public and Non-Profit Sector Development', focusing on transparency in financial management. 'My aim was to support development processes. I also published several books and a magazine about accounting and auditing, which was – a pleasant surprise - very well read.'

The path to becoming an MEP originated with a request from the political party that had asked Ms Maletić to become Secretary of State. 'They – the Croatian Democratic Union – asked me for advice on public finance issues and requested me to help them to better understand the workings of EU funds. I decided to do so and through a board set up by this party, I was actually reviewing also some government actions. I was trying to be positive but apparently it was not always seen like that. But I have been told that this is not too unfamiliar for auditors.'

One thing led to the other and she was asked to be on the Croatian Democratic Union's list to become an MEP upon the accession of Croatia in 2013. Here, too, she initially said no. 'They wanted me because of my expertise on the negotiation process. However, I was rather busy with my NGO, which was going well. But sometimes in life things happen differently than planned.'

### ... to audit professional at the ECA

However, when the opportunity to become a Member of the ECA arose, Ivana Maletić did not have to think twice. 'For me the ECA is the place to be! My professional training and experience are closely related to the core activities of the ECA, although people may think otherwise because of my background as an MEP. I really feel I can grow here and contribute.'

She thinks that the ECA has a solid, if not unique position, when it comes to interacting with the European Parliament. 'As an MEP you can use authoritative studies, analysis, all kinds of information. But having something coming from the ECA, that has more value. Because with information from many other organisations, even including think tanks, you never know whether they are influenced or not. Is there somebody behind something, is there an interest towards a specific line of thinking, and so on.'

“  
*As an MEP you can use authoritative studies, analysis, all kinds of information. But having something coming from the ECA, that has more value.*

She recalls that as an MEP she always was looking for independent sources. 'And we had professors coming, but sometimes it was obvious that they were actually the voice of some specific interests.' She finds that it is not easy to decide whom you can trust. 'But with the ECA it is very easy – you are on the safe side, receiving good input you can use

in your decision-making process. It is important that what the ECA comes up with has no hidden agenda, is based on established facts and evidence and properly analysed. That is professional.’

“ ... what the ECA comes up with has no hidden agenda...

### Portfolio at the ECA

Within the ECA, Ivana Maletić is now part of the audit chamber working on ‘Regulation of Markets and Competitive Economy’. She already has several tasks in her portfolio, such as supervising the work for a landscape review on financial crises and mechanisms to prevent them. ‘I am really looking forward to working on this with the audit team. This topic is extremely important, even more so since we hear concerns about another recession coming and how this will actually influence the markets. We will cover topics like the root causes of the financial crisis and how the current situation compares with back then.’ She is aware that this review is likely to attract a lot of attention. ‘We need to be very precise and detailed enough so we actually respond to the needs and expectations of our stakeholders.’

Another topic that has her interest relates to the internationalisation of SME activities, an issue that also has the interest of the EP. ‘This topic is particularly relevant since we see more and more economic activities shifting from the EU to Asia, to the USA, etc. We often speak about scaling up the start-ups. Fortunately many of them do not ‘die,’ but they most often also do not really scale up.’ She refers to work she has done on a related topic when working as an MEP. ‘I was chair of a working group within the EP on knowledge for innovation, working with professional bodies in Member States.’ Ivana Maletić believes that audit can be helpful in identifying ways to better support SMEs and link them to research institutions, so that they can really grow towards an international level. ‘And here the question is: how to really strengthen a single market and overcome a fragmentation that prevents SMEs from growing.’

“ ... how to really strengthen a single market and overcome a fragmentation that prevents SMEs from growing.

An audit task currently under Ivana Maletić’s supervision relates to Horizon 2020. ‘From my work in the EP, I know that these research programmes, where there is a lot of competition, are less attractive for participants from economically less developed Member States. They are often dealing more with Cohesion funds and do not have the capacity to participate in such a competitive programme as Horizon 2020.’ She says that the audit will touch upon support programmes to change this and on what can be learned in order to improve the accessibility of the European research programmes. This concern has also been raised in relation to the Juncker Plan and its effects. ‘The spill-over effects of these plans should not always go to the same group of Member States and to the same participants.’

### Diversity is good but sometimes unity is better

Ivana Maletić has also been an active member of an ‘ad hoc’ committee on money laundering and tax avoidance. She thinks it is impossible to achieve good results in this area without intensive coordination and cooperation among Member States. ‘For me it is clear that it needs to be a joint solution. Because we cannot end up with a joint solution that is applied differently. For example, take money laundering. Without having the same regulation implemented in the same way in all Member States, you will always have something disappearing somewhere because the money will go from one country to the other, wherever the gaps in the system are.’ She feels there are limits to flexibility on this topic. ‘Otherwise you end up with the fragmentation I referred to before, leading to less competitiveness with, for example, China and the USA. Meaning that we are losing our market position.’

“ ... we cannot end up with a joint solution that is applied differently.

Ivana Maletić believes that Europe can be proud of its diversity, but within certain limits. ‘We have diversity in our history, in our culture, and we have different traditions. And that is fine and we should cherish this. On the other hand, in some aspects we need

more unity e.g. defence policy – together we can achieve more with less – or economic policy where we need comparable conditions for businesses without cross-border obstacles at each stage. Or open science, with exchange of knowledge and research results we can avoid starting from the beginning in different places. But there are also limits to diversity. Can we be united in diversity when we talk about defence policy? Or even about economic policy? For example, in Croatia, we want to have the euro. That is not diversity, there is one euro, one monetary policy. Creating different euros in each Member State may sound pragmatic but is actually not really feasible.’ She gives another example: ‘How can we compete with all the giants arising around us, for example in technology, by being pragmatic in what can be applied in one Member State or the other? We spoke about the SMEs. Why are none of the top 50 innovators in Europe, but all are either based in the USA or China?’

### A professional in a political environment

Some of these questions may be dealt with by performance audits, and Ivana Maletić believes the ECA has an important role to play here. ‘When Member States have a different opinion on certain issues it can be helpful to have an independent assessment from the ECA.’ In her view, the authority of the ECA should not be underestimated. With a laugh, she recalls an experience when she was at the Croatian Ministry of Finance. ‘I was an auditee also for several ECA visits. I can tell you that people in the ministry were a bit scared. Somebody from far away is coming to see what we were doing and who knows what they will think.’

“ I was an auditee also for several ECA visits. I can tell you that people in the ministry were a bit scared.

When it comes to topics that the ECA can and should audit, the former MEP does not see a clear boundary. ‘I think there is no area that is exclusively political and where as a professional you cannot identify good points, weaknesses, and provide recommendations for improvement. We are all here working to improve the EU, using public money for the benefit of EU citizens. If we create ‘no go’ areas for auditors where do we end up as the European Union? What will this mean for trust?’

“ ... there is no area that is exclusively political and where as a professional you cannot identify good points, weaknesses, and provide recommendations for improvement.

One example of a policy area where the former MEP sees room for improvement is cohesion. ‘How to make cohesion policy function better, making it more effective. And how come we have all the time the same findings and the same errors in the field of public procurement, state aid, eligibility, etc.? What is then wrong with the system? Have we made it so complex that nobody can apply it any more in a proper way? Or are these errors aimed at maximising the EU funds for the Member State?’ In her view the persistence of such errors, and their frequency, may require system changes.

With a newly elected European Parliament in place, to be followed shortly by a new European Commission, Ivana Maletić believes that the ECA needs to keep an eye on their new priorities. ‘For example, we will have a new vice-president for democracy and demography. For sure, demography is an important topic. And we will need to be prepared, including looking at possible scenarios. Consequently, we should also reflect such trends in our audit work programme.’ She underlines that the ECA should not only look at what the European Commission or the EP select as priorities, but look further, at trends both in the EU and beyond. ‘We have to take many things into consideration and then decide what in our own view is the most important. Simply because we have very limited resources. We need to focus where we can have the biggest impact and where our contributions are most useful for political decision makers. Then we can be relevant, actually triggering adjustments towards better decision-making...for the EU citizen.’

# Reaching out

## Annual joint NAO/ECA seminar in Malta

By Annette Farrugia, private office of Leo Brincat, ECA Member



ECA Member Leo Brincat speaking at the joint ECA/NAO conference in Malta

PHOTO : DOI - Jason Borg

In the past three years, the Maltese National Audit Office (NAO), has organised an annual joint seminar in Malta, inviting speakers together with the ECA and in particular ECA Member Leo Brincat. These seminars are targeted at Members of Parliament sitting on the Public Accounts Committee, together with key public officials from governmental organisations and NAO staff. This year's seminar had as theme 'Supreme Audit Institutions: How can they influence governments to address citizens' concerns?'. Annette Farrugia, attaché in the private office of Leo Brincat, provides insights on the seminar's discussions and on other activities involving reaching out to stakeholders in Malta.

### Focus on citizens' concerns

For this year's conference, the ECA and NAO sought to address the external auditor's role, and more specifically that of supreme audit institutions (SAIs), as a key influencer of good governance, both at a European and national level. In that role, SAIs should encourage public institutions to continuously strive to listen, engage and deliver upon the concerns of ordinary citizens, which is also the key element of International Standard for Supreme Audit Institutions (ISSAI) 12 on 'The Value and Benefits of Supreme Audit Institutions – making a difference to the lives of citizens' (see **Box 1**).

#### Box 1 - ISSAI 12 The Value and Benefits of Supreme Audit Institutions – making a difference to the lives of citizens

'SAIs demonstrate ongoing relevance by *responding appropriately* to the challenges of *citizens*, the expectations of different *stakeholders* and *emerging risks and changing environments* in which audits are conducted.

Furthermore, to serve as a credible voice for beneficial change, it is important that SAIs have a *good understanding of developments in the wider public sector* and undertake *meaningful dialogue with stakeholders* about how the SAI's work can facilitate improvement in the public sector.'

In his keynote address, Leo Brincat outlined three main messages in answering the question of how SAIs can influence governments to address citizens' concerns.

*The role of an SAI in government policy*

A question that pops up very often across SAIs is where to draw the line when it comes to influencing government policy in choosing performance audit topics or at the planning and reporting stages of an audit. Leo Brincat noted that 'whilst it is fundamental that as auditors, we should ensure that our work continues to focus on priority trends, issues and developments, even if we somehow enter the political realm, we must do so through transparent, fact-finding and objective reporting as well as via prudent timing of reports and the recognition of socio-economic circumstances and sensitivities.' He emphasised that SAIs play an important role in promoting changes and reforms in the performance management of the bodies they audit.

*The topics an SAI chooses to audit*

Leo Brincat noted that, as opposed to former years when audit institutions focused almost entirely on compliance auditing, today most of them feel that they should cover subjects which touch upon citizens' lives, that in the past were not considered their domain. In this way, SAIs are increasing their own relevance and expanding their outreach. This year's guest speaker, ECA director Gerhard Ross, delivered a presentation on 'Identifying the right topics and communicating results effectively,' setting out the ECA's programming cycle as well as the importance of engaging with stakeholders in gathering audit ideas, whilst maintaining our independence and maintaining our focus on high risk and high materiality areas.

*The SAI's communication strategy & tools*

'The need to reconnect relations between institutions, governments and the taxpayer - as the ultimate stakeholder, can be done by opening more direct connectivity channels,' said Leo Brincat. He also mentioned that, currently the major challenge – or opportunity – is that of communicating audit findings in a digital world. This is an area in which the ECA has introduced a number of new tools for improving interaction with EU citizens. The use of social media has gained increasing relevance as a direct channel to reach out to our citizens or stakeholders. Gerhard Ross also mentioned that a communication plan, visual presentation and clear language are key for conveying the main messages of our audit reports.

Further to this, the Malta Auditor General, Charles Deguara, explained how the technical aspect of audit reports has a tendency to put off the public from taking an interest in the work of the SAI. In order to address the deficit in the level of communication with the public, the NAO would be introducing a more effective method and style to inform the public about the conclusions of the Auditor's reports.

**Reaching out to stakeholders in the Member States**

In his mission of reaching out to stakeholders, Leo Brincat combined the conference in Malta with a number of meetings and exchanges with various interested actors in Malta, where he presented the ECA's special report on the European Fund for Strategic Investments (EFSI), for which he was the reporting ECA Member.

His first presentation was at the Parliament of Malta where he discussed the report with a number of parliamentary committees including the Foreign and European Affairs Committee, the Public Accounts Committee and the Economy and Financial Affairs Committee. Members of the committees expressed their views on the amount of EFSI uptake by Malta and inquired into the issue of geographical disparity, where the majority of EFSI financing went towards the 'EU 15.'

Given the topicality of the EFSI report, notably to the private sector industry, another meeting took place at the Malta Chamber of Commerce, Enterprise and Industry, to discuss the importance of the EU flagship initiative in boosting growth and investment by providing access to finance. The Malta Chamber provided Leo Brincat with feedback about the limitations and pitfalls of EFSI on behalf of the local business community. Here, one of the concerns expressed was that, in spite of EFSI being a demand driven instrument, its geographical distribution across the EU remained a challenge in terms of the lower take up by smaller Member States, such as Malta. This could be attributed to the required high value of the projects and market needs.

Finally, Leo Brincat also presented the EFSI special report to the Malta Development Bank, which was set up in 2017 with the strategic objective to offer financing facilities that support viable operations where the market is unable or unwilling to accommodate such activities on its own. In doing so, it engages regularly with EU institutions including the European Commission and the European Investment Bank. The Malta development Bank is chaired by former ECA Member Prof. Josef Bonnici.

# Reaching out

## Konnichiwa - Japanese delegation visit at the ECA

By Peter Borsos and Niamh Mahon, private office of Tony Murphy, ECA Member



The Japanese delegation and their hosts at the ECA

On 26 August 2019, the ECA welcomed a Japanese delegation in the framework of a long-standing relationship between the ECA and Japan and in particular with their Board of Audit. In the last 15 years, several official visits and meetings have taken place both in Japan and in Luxembourg. This relationship between the EU and Japan has recently intensified due to an Economic Partnership Agreement between the EU and Japan entering into force on 1<sup>st</sup> February this year. Peter Borsos and Niamh Mahon, both in the private office of Tony Murphy, the ECA Member hosting the Japanese delegation, report on this event.

### A visit by friends

In June 2019, following an invitation, ECA President Klaus-Heiner Lehne met with the Chair and Members of the Audit Committee in the Japanese Parliament, the Diet, during his visit to Tokyo. While on this visit, Mr Lehne returned the gesture and extended an invite to the Diet to visit the ECA.

The invitation was gladly accepted by the Chair. Fast-forward to August 2019 and the ECA received a visit from a Japanese delegation, consisting of Members of the Diet and the Japanese Board of Audit. Following an invitation by ECA President Klaus-Heiner Lehne, who had met with the Chair and Members of the Audit Committee in the Japanese Parliament the Diet during his visit to Tokyo in June 2019, earlier this year, a Japanese delegation from the Diet and the Japanese Board of Audit visited the ECA. ECA President Lehne invited the Chair and the Members of the Committee to Luxembourg in order to continue their dialogue on how to face future challenges in the area of public auditing. The invitation was gladly accepted by the Chair. The visitors were welcomed and hosted by ECA Member Tony Murphy, his private office and the DOP Institutional Relations team of the Directorate of the Presidency.



The Diet, the Japanese Parliament, was established in 1889. It is composed of a lower house called the 'House of Representatives,' and an upper house, called the 'House of Councillors.' Both houses of the Diet are directly elected under parallel voting systems.

The delegation from the Japanese Parliament was composed of four Members, they are from the House of Representatives all of whom all belong to the Standing Committee on Audit and Oversight of Administration. This Committee, which consists of 40 Members has a similar role to the European Parliament's Budgetary Control Committee (CONT). Banri Kaieda, a long-standing Member of the Diet and Chairman of the Committee, headed the delegation. The Diet Members were accompanied by high-level officials from the Committee's secretariat, the Japanese Board of Audit, the Ministry of Internal Affairs and Communications and from the Embassy of Japan to Luxembourg.

### **Mutual interest and exchange of good practice**

Tony Murphy presented the role and function of the ECA. He explained the functioning of the ECA as a collegiate body, how we are organised and our role within the EU's institutional framework. He outlined our tasks, the work we do and how we present the results of this work in our different products. Finally, he emphasised the relevance of our work for the European Parliament, particularly the CONT committee, before he finished his presentation by outlining our cooperation with supreme audit institutions at both the European and worldwide level.

Following the presentation, the members of the Japanese delegation asked questions and an interesting exchange of views took place, during which they expressed their strong interest in performance audit. In that respect, they were particularly keen on understanding how we present our products to the policy makers, like the European Parliament and the Council. They were also interested in what sort of impact the ECA has when it comes to contributing to policy making. In responding, Tony Murphy referred to the ECA's opinions which we provide to the legislators in the run-up of the legislative process. He explained how these opinions contribute to the surrounding discussion and final decision-making. A relevant example he used was [ECA Opinion 7/2018](#) on the Common Agricultural Policy.

Following their short visit to Luxembourg, the delegation continued their journey through Europe and headed for Sweden and the UK respectively where they had planned to meet with the Supreme Audit Institutions. The delegation thanked the ECA for the warm welcome and expressed its hope for further cooperation.



From left to right: Wolfgang Stolz, head of private office, Tony Murphy, ECA Member, Banri Kaieda, Chairman, Standing Committee on Audit and Oversight of Administration, and Ichiro Miyashita, Director of the Standing Committee on Audit and Oversight of Administration

# Reaching out

## President of the Slovenian Court of Audit visits the ECA

By Samo Jereb, ECA Member



From left to right: Mihails Kozlovs, ECA Member; Klaus-Heiner Lehne, ECA President; Tomaž Vesel, President of the COARS; Samo Jereb, ECA Member

On 10 September 2019, Tomaž Vesel, President of the Court of Auditors of the Republic of Slovenia (COARS), visited the ECA, accompanied by Dijana Možina-Zupan, head of his private office, and Helena Lovše, head of Translation, Proofreading and Public Relations at the COARS. The purpose of their visit was to exchange information about ongoing audits of state aid in the banking sector at both the ECA and the COARS and ways to strengthen cooperation between the EU's supreme audit institutions (SAIs) in the context of the Contact Committee of EU SAIs. ECA Member Samo Jereb, formerly Vice President of the COARS, highlights some of the main issues discussed.

### **Audits of state aid in the banking sector**

Following the financial crisis, which led to the need for Member States to grant state aid to commercial banks, the Slovenian legislator decided to change the legislation and grant the Court of Auditors of the Republic of Slovenia a mandate to audit the Bank of Slovenia. The audit mandate concerns the Bank of Slovenia's supervisory role over commercial banks. The COARS is one of the few, if not the only supreme audit institution (SAI) in the EU Member States that is currently auditing their own national central bank regarding the state aid granted to banks during and following the 2008 financial crisis.

ECA President Klaus-Heiner Lehne and COARS President Tomaž Vesel discussed the problems the COARS has been facing concerning access to information during its audit of the National Bank of Slovenia, which are similar to those faced by the ECA vis-à-vis the ECB when auditing the Single Supervisory Mechanism. In this context, the Memorandum of Understanding between the ECA and the ECB signed on 9 October 2019 was of particular interest. They also exchanged information about the audit of state aid in the banking sector currently underway at the ECA.

The meeting also provided a good opportunity to discuss how to strengthen cooperation between the two supreme audit institutions. The presidents exchanged views on the possible approach to deciding on suitable topics for future cooperative audits in the

framework of the Contact Committee of European Union SAIs, and discussed audit topics of common interest to both institutions in 2020.

In addition, ECA Member Mihails Kozlovs presented the scope, timing and approach taken in the ECA's audit of state aid in the banking sector. Tomaž Vesel did the same for the audit of the Bank of Slovenia and they discussed potential common points in the two ongoing audits.

### Beekeeping – a shared passion

The Court of Auditors of Slovenia was one of the first SAIs to keep bees on their premises. The initiative inspired the ECA to install beehives on its own roofs, taken care of by enthusiastic staff members.

During his visit, President Vesel presented the first pots of COARS rooftop honey, symbolising the fact that the Slovenian SAI has made sustainable development goals (SDGs) a top priority!



#### Box - pollinators and politics

Around four in five European plants depend on insect pollination. Pollinators include hoverflies, butterflies, moths, beetles and, most importantly, bees. In the past few decades, pollinators have declined in number and diversity in the EU and many species are on the verge of extinction. In the long term, their disappearance would cause our whole ecosystem to collapse.

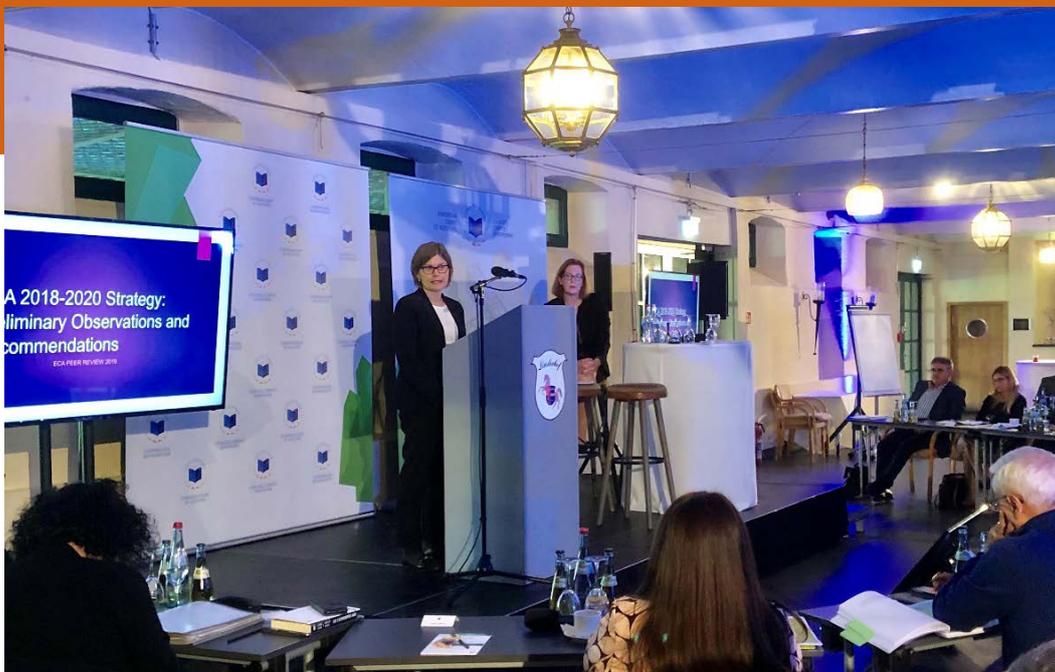
To address this, the European Parliament adopted a resolution in November 2011 committing all EU institutions to protecting pollinators against the risk of extinction. An EU initiative on pollinators was adopted in 2018 and the European Commission is to provide additional financial support to the EU's beekeeping sector.

Since early 2019, the ECA has engaged in a beekeeping project. In June, the ECA received four queen bees from the Republic of Slovenia at an official ceremony also attended by Astrid Lulling, a former Member of the European Parliament. As an MEP, Astrid Lulling actively worked to defend beekeepers and pollinators. The project shows the ECA's active commitment to improving the environment.

# Reaching out

## The 2019 ECA seminar - paving the way for the next ECA strategy

By Gina Wittlinger, Directorate of the Presidency



Ines Metsalu-Nurminen, from the Estonian Riigikontroll, and Sarah Veale, from the U.S. Government Accountability Office, presenting the preliminary observations of the peer review team

The ECA seminar, which is a sort of 'Away Day' for the ECA's management, provides an annual opportunity for reflection and open discussion on topics such as the ECA's strategic orientation, organisation and future development. This year's seminar initiated the process of formulating a 2020+ strategy. On 19 and 20 September 2019, the ECA Members, Secretary General and directors discussed the implementation of the current strategy and exchanged their first reflections on the design and development of the post 2020 strategy. Gina Wittlinger, who helped to prepare the seminar as an intern in the Directorate of the Presidency, gives insights here on the main topics discussed and the contributions of guest speakers.

### Double perspective on the ECA's strategy

This year's seminar focused on the ECA's Strategy from a double perspective: Where are we and where do we want to go? Over the course of the two days, the ECA Members, Secretary General and directors discussed the implementation of the current strategy and exchanged their initial thoughts on the design and development of the post 2020 strategy.

#### Box 1 – What is the ECA seminar?

Each year the ECA organises a seminar where ECA Members, the Secretary General and directors can discuss topics such as the ECA's strategic orientation, organisation and future development, outside the normal setting. The 2019 ECA seminar was chaired by Eva Lindström and João Figueiredo who are also heading the Digital Steering Committee (DSC) and the Strategy & Foresight Advisory Panel (SFAP), both recently set up. A group from the Directorate of the Presidency (DOP), led by Martin Weber, Andreas Bolkart and Daniel Tibor, supported them in preparing and organising the seminar. Similar to the 2018 seminar (see ECA Journal 10/2018), this year's seminar took place in Überherrn, Germany, around a one hour drive from Luxembourg.

### The first results of the peer review of the 2018-2020 Strategy

The discussion on the first day focused on assessing the progress of the implementation of the 2018-2020 strategy. It provided an opportunity to discuss the preliminary findings and recommendations resulting from the ongoing peer review on the current strategy. The peer review team from Estonia, Denmark, the Netherlands and the USA had come to Überherrn for the occasion. The first three sessions were built around three goals from the 2018-2020 strategy:

- Improve the added value of the Statement of Assurance (SoA) in the context of today's EU financial management;
- Increase focus on performance aspects of EU action;
- Get clear messages across to our audiences.

The peer reviewers presented the work done so far for each goal, together with their observations and preliminary recommendations. A discussion of their input followed each contribution. The last session of the day dealt with cross-cutting issues and the peers made some preliminary recommendations for the new strategy.

#### Box 2 – What is the peer review about?

The ECA's third peer review focuses on progress made in implementing the 2018-2020 strategy. The peer review team scrutinised the progress the ECA has made in implementing its 2018-2020 strategy and whether the actions carried out are likely to achieve the desired effects. The peer report is expected to be completed in December 2019 and subsequently the final report will be published by the ECA. For more information, see also ECA Journal 11/2019.

On the whole, the peers found that the implementation of the strategy has been quite successful. The new SoA approach recognises the changes to the EU's financial management situation. The ECA's productivity in dealing with performance aspects has approximately doubled and substantial progress has been made in communicating ECA messages to the outside world. Shortcomings relate to accountability in implementing the strategy, integration with existing processes and varying engagement with the strategy throughout the organisation. The peer reviewers intend to finalise their review and present their final results by the end of this year.

### Strategy Development in the European Commission: A glimpse of the future

For a pre-dinner speech, Ricardo Borges de Castro, Advisor on Strategic Foresight at the European Political Strategy Centre (EPSC) - the European Commission's in-house think tank – came to Überherrn. He talked about strategic foresight, trends, and strategy development. One major point he made was that due to the heightened complexity of the policy framework, modern institutions need to be more anticipatory of coming developments. They need to see links between trends and create joined-up strategies that take all these connections into account.

The day ended with letting the participants identify the most important challenges for the ECA, based on the presentation and their own assessments. Using an online polling tool, each participant could enter his or her ideas on their mobile devices. External challenges clearly outnumbered institutional ones and related to digitalisation, climate change, common EU values and the protection of our democratic societies. Institutional challenges like preserving independence and further increasing the impact of our audit work were ranked highest.

### **Case study: creating a strategy and reforming a supreme audit institution**

The second day began with João Figueiredo summarising the previous day's discussion with the peer review group and presenting the results of the poll. Tytti Yli-Viikari, President of the National Audit Office of Finland (NAOF), then gave her input on the process of strategy creation, change management and leadership from the perspective of a national SAI. According to her experience, involving the organisation and encouraging it to participate from the start of the process are key to success.

### **Final Session of the ECA Seminar 2019 – ‘Strategy is about making choices’**

The final session was about discussing the planning process and design of the new strategy. The Chair of the Strategy & Foresight Advisory Panel (SFAP), João Figueiredo, presented the initial results of the Panel's recent work, a planning process for the 2020+ strategy. It defines how and when to involve the organisation and how to align the 2020+ Strategy with the 2021 annual work planning process during the 2020 transition period.

Finally, Eva Lindström chaired a discussion on the design of the 2020+ strategy based on two questions:

- What should our priorities be?
- What time period should our post 2020-strategy cover?

On the first question, it was evident that stakeholder priorities, trends, risks and Sustainable Development Goals – SDGs - might play an important role when defining strategic priorities. However, a good strategy is also about making choices and setting aside some goals in favour of others. On the second question, a clear consensus emerged. The participants agreed that five years would be the most suitable time period for the post 2020-strategy. Since the seminar is not a forum for making decisions, the results of this structured brainstorming will be subject to further discussion.

ECA President Klaus-Heiner Lehne closed the seminar, thanking all participants and the organisers. The next steps will be based on the implementation of the process developed by the SFAP.

# Reaching out International public audit community meets at the XXIII INTOSAI congress in Moscow

By Alan Findlay, Audit Quality Control Directorate

Every three years delegations of supreme audit institutions (SAIs), organised in the International Organisation of Supreme Audit Institutions (INTOSAI) meet to discuss developments relevant for public sector auditing, this under the INTOSAI motto 'Mutual experience benefits all!' With 200 members INTOSAI is the global umbrella organisation of supreme audit institutions and its XXIII congress was hosted in Moscow in September 2019 by the Russian Chamber of Accounts - the chair of INTOSAI for the next three years. Alan Findlay, principal auditor and contributor to the ECA's work as vice chair of the INTOSAI Professional Standards Committee (PSC), presents some of the highlights of the congress and how the ECA contributed regarding its PSC tasks.



Keynote address by Vladimir Putin, President of the Russian Federation, at the Plenary meeting of the XXIII INTOSAI congress in Moscow on 25 September 2019

## Identifying good practices

The XXIII International Congress of Supreme Audit Institutions (INCOSAI) was held from 23-28 September 2019 in Moscow and was attended by over 600 delegates from 169 countries. This triennial meeting brings together SAI leaders worldwide and helps the exchange of information and good practices in public sector auditing.

This INCOSAI was devoted to the discussion of how an SAI could react to public sector auditing developments and technological advancements in order to remain relevant, respond to the needs of citizens and stakeholders and add value by providing independent external oversight on the achievement of nationally agreed goals, including those linked to the Sustainable Development Goals, (SDGs). The themes proposed by the host this year to explore this area were:

- Information Technology for the development of public administration, and;
- the role of SAIs in achieving national priorities and goals.

#### **Box 1- INTOSAI**

The International Organisation of Supreme Audit Institutions (INTOSAI) provides an institutionalised framework for SAIs to promote development and transfer of knowledge, improve government auditing worldwide, and enhance the professional capacity, standing and influence of member SAIs in their respective countries.

INTOSAI was founded in 1953 as an autonomous, independent and non-political organisation. It has a special consultative status with the Economic and Social Council (ECOSOC) of the United Nations. The General Secretariat of INTOSAI is run by the SAI of Austria.

EU SAIs participate in various INTOSAI projects, such as its Forum for INTOSAI Professional Pronouncements (FIPP) determining the international auditing standards (ISSAI) which state the basic prerequisites for SAIs and the fundamental principles of auditing public entities.

#### **Theme I – Information Technology for the development of public administration**

During his keynote address at the inauguration ceremony to the Congress, Vladimir Putin, President of the Russian Federation, set the scene by noting that ‘...the pace of modern life, rapid technological changes and the ambitious tasks of our countries are setting new standards in all areas, including for the quality and instruments of audit.’ This sentiment was echoed in a paper produced by the Russian Chamber of Accounts, where it proposed to the congress to consider in detail the role of IT in public administration, noting that proper and targeted data utilisation (ensuring the rights and interests of individuals and corporations without compromising national security) can lead to a more transparent public service, where the openness of data resources in public institutions helps strengthen the supervision of public administration practices. This in turn can lead to better decision-making through data analysis, whereby public institutions collect, integrate, analyse, and utilise large volumes of decentralised data from other public authorities to underpin their own decision-making. Better knowledge ultimately leads to better targeted public services.

In preparing the background to the paper, the SAI of Russia obtained data from various countries working on improving the efficiency of their data management. The conclusion was that public institutions still face numerous problems on the disclosure, sharing, integration, analysis, and security of data. Where countries had been successful, the most effective strategies to emerge were:

- *Strategic planning: where governments have a data strategy policy, supported by an infrastructure, which allows effective information exchange and capacity development;*
- *Capability development: governments which collaborate with universities and research institutes to develop new technologies, and create incentives for technological innovations and talents building;*
- *Implementation measures: governments which establish or designate an agency to promote ‘big data’ applications, develop a data risk assessment mechanism to identify the boundaries for data sharing, and set up a unified platform for open data with due consideration for data security and privacy protection.*

## Theme II – SAIs contributing to national priorities

The second paper dealt with the role of SAIs in achieving national priorities and goals and examined how national SAIs could relate to the public sector auditing developments to remain relevant, respond to the needs of stakeholders and add value in the achievement of national priorities and goals.

This paper considered specifically the ongoing and anticipated changes in roles of SAIs, the use of non-audit products and the increase of impact from work undertaken, enhancing the quality of audits through analytics e.g.; artificial intelligence, system thinking, machine learning and assessment of policy coherence.

### Moscow declaration

The highlight of the XXIII INCOSAI was the approval and adoption by participants of the *Moscow declaration* which embodied the discussions in the lively plenary sessions on the two theme papers. The INTOSAI participants acknowledged that recent changes in public auditing and public policy worldwide have created a new environment and new expectations for SAIs. Most notable were the adoption of the 2030 Agenda for Sustainable Development and the SDGs, the data revolution, the adoption of the



INTOSAI Framework of Professional Pronouncements (IFPP), and the expectations and obligations arising from ISSAI-P 12: 'The Value and Benefits of Supreme Audit Institutions – making a difference to the lives of citizens.'

These changes have led SAIs to consider their role in the governmental accountability processes, how to respond to public demand for effective and efficient management of public resources and how to cope with the complexity of governmental structures needed to achieve national goals, program objectives, policies and strategies. Against this background, SAIs and INTOSAI have to consider how they handle changes brought on by the data revolution and digitalisation. The declaration itself is composed of three linked characteristics:

- *Providing independent external oversight*: by developing a strategic approach to public auditing to help deliver national priorities and the SDGs, and to enhance the value of public auditing by extending the provision of audit-based advice on important and strategic issues of public administration and government functions;
- *Respond effectively to opportunities brought by technological advancement*: by making better use of data analytics in audits, including adaptation strategies, such as proper planning for such audits, developing experienced teams for data analytics, and introducing new techniques into public audit.

- *Enhancing SAI's impact*: by encouraging innovation and development, urging auditors to use data analytics, artificial intelligence tools, and advanced qualitative methods, and finding more ways to address inclusiveness when conducting audits as a key point of the 2030 Agenda with its principle of leaving no one behind.

### **INTOSAI Professional Standards Committee (PSC)**

The ECA currently holds the vice chair of the INTOSAI Professional Standards Committee (PSC), and is proud to work alongside the Brazilian SAI as Chair. During the congress the PSC staffed an information booth where delegates could learn about four major achievements since the last INCOSAI in 2016.

The establishment of the *PSC Strategic Development Plan for 2020-2022* (SDP) will guide INTOSAI standard setting work for the next three years. The overall goal of the SDP 2020-2022 is to further slim down the INTOSAI Framework of Profession Pronouncements (IFPP) to its essential elements by making it simple, principles-based, future-proof and more accessible for practitioners. The SDP is the result of many months of consultation and analysis which included individual SAIs and INTOSAI bodies and, above all, the INTOSAI Goals Chairs and the Forum for INTOSAI Professional Pronouncements.

The *consolidation of the IFPP*, especially the process of relabelling, renumbering, and updating the design of INTOSAI pronouncements may sound cosmetic, but it has left us with standards which are more modern, provide a clear distinction between the three categories in the framework (INTOSAI Principles, INTOSAI Standards and INTOSAI Guidance). It ultimately gives INTOSAI pronouncements a more professional look. Likewise, the development of the new ISSAI website - [issai.org](https://issai.org) - as part of the migration process previous to the new framework, will ultimately result in a website that will be more modern and user-friendly.

The proof-of-concept of a *Technical Support Function*, which was conceived to create a support resource for the whole of the INTOSAI community, was launched via a call for expressions of interest for dedicated staff. These staff will work on the procedural and methodological side of standard setting activities.

Finally, the PSC sees a need to improve communication and dialogue around the standard-setting process, and the application of the IFPP in practice. INTOSAI is a complex organisation, and the PSC has identified the need to have quick and easy bilateral and multilateral communication flows. To achieve this, the PSC has launched a network of *INTOSAI standards liaison officers* (ISLOs) within the INTOSAI community, through which SAIs, via a dedicated liaison officer, can channel information and feedback to the PSC. The PSC believes that this single point of contact for SAIs, and INTOSAI working groups and bodies will enhance two-way communication and dialogue.

# Reaching out

## ECA hosts ACCA conference on public sector innovation –creating value

By Derek Meijers, Directorate of the Presidency



Speakers at the conference on public sector innovation, from left to right: Professor Koen Verhoest, University of Antwerp; Stavroula Demetriades, Eurofound; Lazaros Lazarou, ECA Member; Alex Metcalfe, ACCA; Piret Tõnurist, OECD; and Shiva Dustdar, EIB

On 26 September 2019, the ECA hosted a conference organised by the Association of Chartered Certified Accountants (ACCA) as part of ACCA's quarterly brand theme on the 'power of connections'. An impressive line-up of experts gathered at the ECA premises to 'myth bust' some assumptions on public sector innovation. They discussed among other themes the areas in which governments are most likely to succeed in applying innovative practices to improve outcomes for citizens, creating value, or driving sustainability, accountability and the digital agenda. Derek Meijers reports.



### In search of innovation

'Innovation' and the 'public sector' are often seen as antithetical. However, the public sector plays a key economic role as a regulator, service provider, and employer. An efficient, innovative and productive public sector can also be a strong driver of private sector growth. Yet, as described by OECD's Observatory for Public Sector Innovation (OPSI), innovation is not one thing, but a multitude of different things, and should be managed accordingly.

In times of rapid change and budgetary restraints, the public sector faces many challenges and needs to find answers to questions such as how governments should deal with new – disruptive – technologies. Clearly, public sector institutions, just as in the private sector, are on the lookout for innovative solutions. To fuel the search for good, sustainable ideas, the ECA hosted the ACCA conference *Creating value and driving sustainability, accountability and the digital agenda through Public Sector Innovation*, which was part of its quarterly brand theme on the 'power of connections'.

### The public sector as a driver of innovation

In his opening speech ECA Member Lazaros S. Lazarou, addressed the need for radical innovation and called for the public sector to fundamentally change the way they deliver their services. This is also the answer emerging from the new ACCA report on 'Innovation in public finance', which makes the case for more radical innovation in public finance, while demonstrating that the finance function must play a central role in completing this journey.

Participants in the round tables agreed that institutions and organisations in the public sector are in an excellent place to promote and lead innovation. Obviously, the public sector is less agile than, for example, start-ups. Nevertheless, government-led innovation potentially has the biggest impact of all types of innovation. This also became clear from the OECD - OPSI model presented (see **Figure 1**), which showed that governments need to support innovation on different levels and promote a variety of approaches, for example top-down/bottom-up to stimulate public sector innovation.

**Figure 1 – OECD – OPSI model**



### Many roads lead to Rome

During the debates at the conference, it became clear that the engagement of staff at every level of an organisation is a key element of public sector innovation. Across the board, innovation can only thrive in an environment in which all departments, supported by top-level management, make a collective effort to develop new services, policies, technologies or processes.

Innovation is about teamwork and involving people from all sorts of backgrounds and with different skill sets. Really innovative good ideas are usually the fruit of interaction between a larger group of people. Such networks are the cradle of public sector innovation.

For more details about this event, go to the [ACCA website](#).

# Reaching out

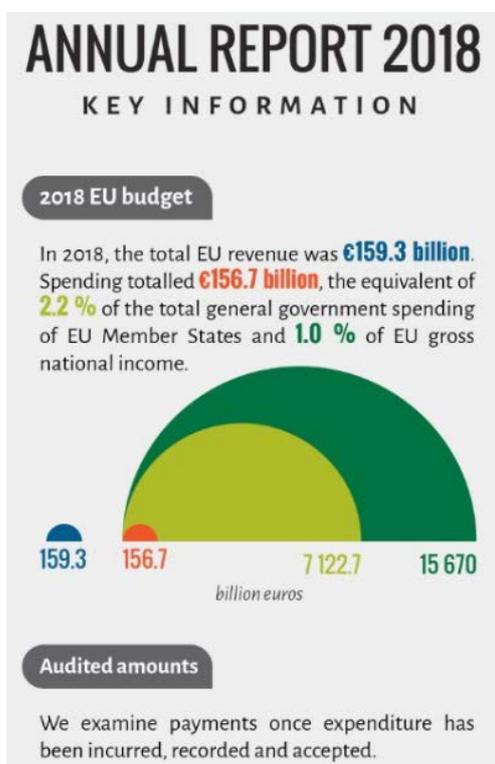
## Publishing the 2018 annual reports: another year, same procedure – or not?

By Fabrice Mercade, Directorate of the Presidency

On 8 October 2019, the ECA published its 2018 annual reports, presenting a wealth of information on the EU accounts, compliance with EU regulations and the performance of EU action. Fabrice Mercade, ECA Spokesperson and Principal Manager of Communications, looks back at the presentation of the 2018 annual reports.

### Traditional press briefings to launch the publication of the annual reports

We follow the same procedure every year when we publish our annual reports. This year, it was on 8 October 2019, that we issued our annual reports on the EU budget and the activities funded by the 8th, 9th, 10th and 11th European Development Funds for the 2018 financial year (see **Figure 1**). Our findings were very similar to those presented in the previous two years.



**Figure 1 – Key information on the 2018 EU budget**

As in previous years, our press briefings took place in Brussels on the eve of publication, on Monday 7 October 2019, and comprised the main briefing – by ECA President Klaus-Heiner Lehne and the ECA Member responsible for the Statement of Assurance, Lazaros Lazarou – with five individual briefings by ECA Members to national correspondents. We also organised two technical briefings for journalists specialised in agriculture, the environment, cohesion and budgetary performance.

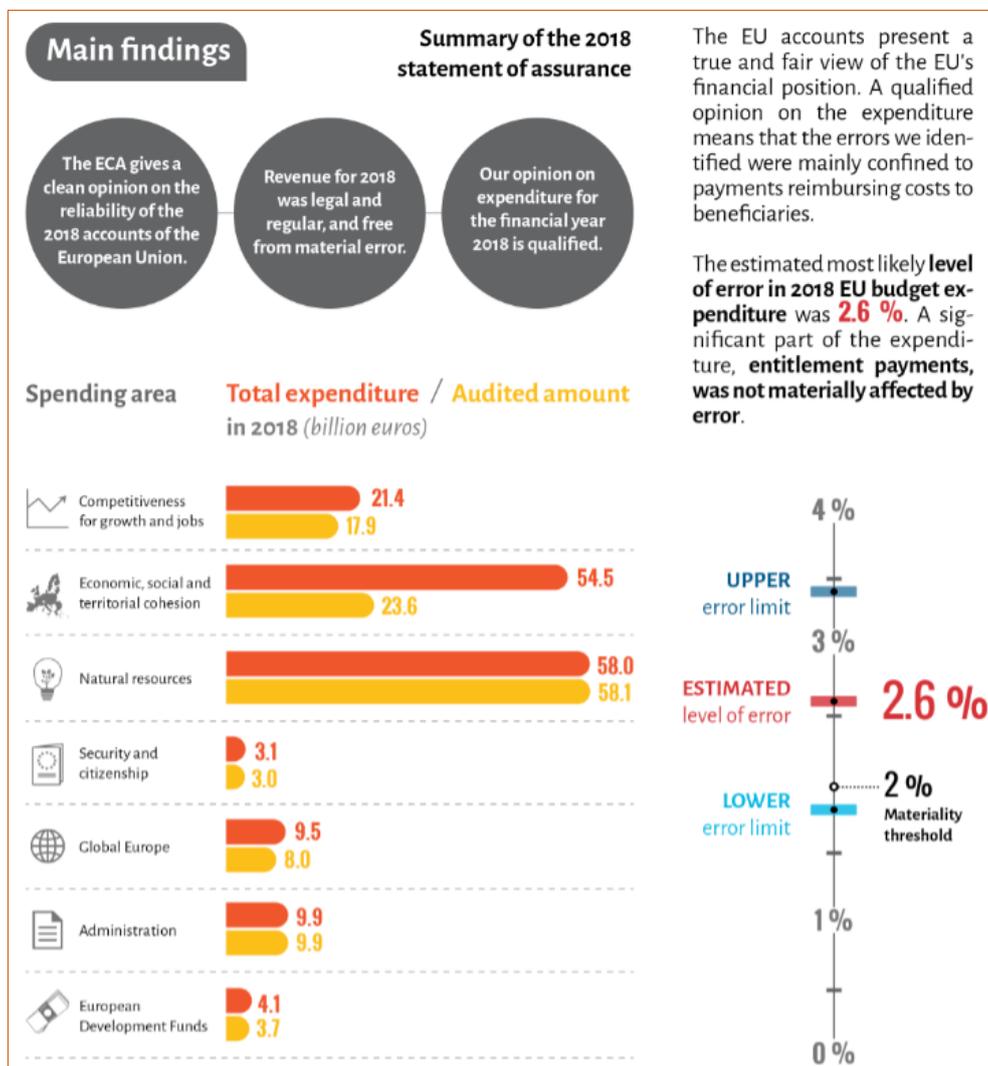
### Main takeaways for the media

Altogether, 49 journalists attended these briefings – an all-time record for the annual reports. If we look at the overall coverage of the ECA 2018 annual reports, we see that our communication effort paid off: 309 news articles and 442 social media posts referring to the AR 2018 were published over the two weeks following publication.

So, media interest in our latest annual reports has been high. But what do they say? What's the main takeaway for the media?

Once again, many media outlets trumpeted that billions of euros had been misspent – a classic headline. They say that 'no news is good news', but it seems that 'good news is no news', as journalists are looking for a story in the annual report. Simply put: bad news sells much better! So, journalists focused on the negatives, even though our overall message was moderately positive. Based on our experience, it is likely that even with an error estimate below 2%, which our auditors would consider not material, some media outlets would continue to write stories about misspending. However, let's not forget that non-compliance with the rules does not necessarily mean that projects did not benefit citizens, were marred by fraudulent intentions or otherwise ineffective. In many cases, the rules were simply too complex for the beneficiaries. Often, national rules pile further conditions on top of the EU rules, leading to a higher risk of error. Take, for example, the case of the law firm considered to be receiving money in error simply because it had set up shop on the same premises as another law firm. This was an irregularity according to the national rules in place.

Figure 2 – ECA's main findings



Cohesion spending still appears to be a work-in-progress. Not only is the risk of error higher as the area mainly deals with high-risk cost reimbursements (as opposed to low-risk payments subject to conditions), but the Member States are also slow to absorb structural and investment funds – slower than in the previous comparable period some seven years ago. As a result, they are adding to the outstanding commitments from

the EU budget, which are climbing ever higher year after year, reaching a new record high this year at just above €280 billion – almost twice the annual EU budget. It is not surprising that in many countries, the quality and speed of cohesion spending, unpaid money from Brussels or money to be clawed back as it was not spent in good time, became a story.

### **Most scrutinised budget**

As in the two previous years, this year's reports carry a silver lining, as they acknowledge that the EU's financial management has improved significantly over the years and now adheres to high standards of transparency and accountability. Most likely, the EU budget is the most scrutinised of all budgets, as it is checked by inspectors from national authorities, the Commission's own controllers and our auditors. We are therefore seeking to benefit from the single audit approach whenever the conditions are met.

Looking forward, we point out that, with a newly elected Parliament, a new Commission to be confirmed, and ongoing negotiations for the multiannual financial framework for the 2021-2027 period, the EU is at a crossroads. As in previous years, we call upon the Parliament and Council to grasp this opportunity and focus EU policies and spending on delivering results and adding value. In this way, we hope that the coming years' reports can feature even more positive messages.

## Reaching out

# ECB and ECA sign memorandum of understanding on access to information

By Raphael Debets, private office of Alex Brenninkmeijer, ECA Member



From left to right: Andrea Enria, chair of the ECB Supervisory Board, Alex Brenninkmeijer, ECA Member, and Klaus-Heiner Lehne, ECA President

In the past few years, on a number of occasions during the ECA's audits of the ECB, issues arose concerning access to documents. The ECA reported its concerns that the problems experienced prevented it from carrying out its work. Discussions on this issue between the ECB and the ECA resulted in a memorandum of understanding (MoU) between the two institutions, covering arrangements for access to information relating to certain ECB tasks. Raphael Debets, head of the private office of Alex Brenninkmeijer, gives some insights into what led to the arrangements made and the MoU itself.

### Fragmented accountability arrangements

Traditionally, the ECB keeps its doors closed to prying eyes, bearing in mind its duty to safeguard the independence of the central bank's monetary policy, as set out in Article 282 of the Treaty on the Functioning of the European Union (TFEU). At the same time, its financial management must be assessed by independent external auditors (Article 27.1 Protocol (No. 4) TFEU). In practice this work is carried out by private sector auditors. However, the ECA is responsible for examining 'the operational efficiency of the management of the ECB' (Art. 27.2 Protocol (No. 4) TFEU). To sum it up, the ECA has no mandate to audit the ECB's monetary policy, but must fulfil its duties under Art. 287 TFEU and Regulation 1024/2013 (the 'SSM Regulation'). Against this backdrop of regulatory provisions, the point of contention lies in the interpretation given to the term 'operational efficiency' and the various linguistic interpretations of it. In turn, this has resulted in difficulties for ECA auditors in gaining access to information (or making use of it in our reports).

### Putting audit rights to the test

So far, our auditors have been denied access to important information on three occasions. First, their 2016 audit of the Single Supervisory Mechanism<sup>1</sup> faced severe difficulties in obtaining audit evidence. Second, during work on their 2017 special report on the Single Resolution Board<sup>2</sup>, the Board insisted on the removal of any data originating from the ECB. Third, in January 2018, when the auditors reported on the ECB's crisis management role in relation to banking supervision, the ECB again denied access to the documents needed to carry out the audit work as initially planned.

In view of these repeated problems in accessing information, the ECA engaged in direct negotiations with the ECB to resolve these issues. This process tested the ECA's stamina: it involved several informal meetings and exchanges of numerous letters.

At the same time, the ECA called upon the Union's legislator to intervene. In a letter to the European Parliament<sup>3</sup>, the ECA expressed concerns that the ECB's position regarding access to documents and information prevented its auditors from carrying out their work. In this letter, even the option of taking the issue to the Court of Justice of the European Union was mentioned.<sup>4</sup> Finally, the ECA called on the European Parliament and the Council to express full support for the ECA's demands for guarantees concerning its access rights.

The letter followed a [call](#) in November 2018 by the heads of the supreme audit institutions (SAIs) of the EU and its Member States to clarify and harmonise the audit mandates of the national SAIs. The SAIs asked national governments and parliaments to address a number of deficiencies in the accountability and audit arrangements for EU banking supervision in view of the current efforts to complete the Banking Union.

This action and its call caused a turnaround in the negotiations that took place between December 2018 and May 2019, and an agreement was reached in the summer of 2019. The MoU was then finally signed in October 2019 (see **Box 1**).

#### **Box 1 - signature of Memorandum of Understanding in October 2019**

On 9 October 2019, the ECA signed a memorandum of understanding (MoU) with the ECB setting out the practical arrangements for sharing information for the ECA's audits of the ECB's supervisory activities. The MoU was signed, in the presence of ECA President Klaus-Heiner Lehne, by ECA Member Alex Brenninkmeijer (Dean of the Regulation of Markets and Competitive Economy audit chamber) for the ECA, and by Andrea Enria (Chair of the ECB Supervisory Board) for the ECB.

### Differences in interpretation of ECA audit mandate not fully resolved by MoU

Since the entry into force of the Single Supervisory Mechanism, the ECB supervises approximately 130 banks, representing about 80 per cent of bank assets EU-wide. Medium-sized and small banks are supervised directly by the national supervisors. With the arrangements now agreed between the ECB and the ECA, our auditors will now have easier access to sensitive information regarding the ECB's banking supervision within the euro area (see **Box 2**).

1 ECA special report 29/2016: Single Supervisory Mechanism – Good start but further improvements needed.

2 ECA special report 23/2017: Single Resolution Board: Work on a challenging Banking Union task started, but still a long way to go.

3 Communication to the European Parliament concerning the European Parliament's request to be kept informed regarding the problem of access to information in relation to the European Central Bank, as laid down in paragraph 29 of the 2016 discharge procedure.

4 Ibid, Paragraph 18.

**Box 2 - ECB-ECA Memorandum of Understanding**

The MoU has an introductory part describing the institutions' independence, their willingness to cooperate closely, and that all language versions of the relevant legislation are equally authentic. In addition, there are 15 sections, covering issues such as type of documents, special treatment of confidential information and the principle of proportionality when requesting information. The ECA and the ECB will review the cooperation and information exchange every three years, or earlier if deemed necessary by both parties.

This MoU does not change any of the audit rights laid down in the TFEU and the SSM Regulation, it merely aims to accommodate the issues relating to the access and use of information in ECA audits regarding the ECB's supervisory activities. This also means that the differences in interpretation of the ECA audit mandate are not yet fully resolved. Nevertheless, this clarification of our access rights is an important first step towards proper accountability arrangements, given the high risk to EU public funds from banking failures and the complexity of the supervisory mechanism. In addition, the issue of money laundering is also relevant in this context, given some recent examples in Member States.

## ECA publications in July/August/September/October 2019

### Special report 10/2019

Published on 10/07/2019



### EBA stress tests should focus more on EU-wide systemic risks

The latest bank stress test by the European Banking Authority (EBA) should have been more demanding in testing banks' resilience to systemic risks across the EU, according to a new report by the European Court of Auditors. The simulated shocks were actually milder than those experienced during the 2008 financial crisis and the adverse scenario used did not appropriately reflect all relevant systemic risks to the EU financial system, say the auditors. In addition, when designing and carrying out the test, the EBA relied heavily on national supervisors, but lacked resources and could not oversee them effectively.

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### Special report 12/2019

Published on 16/07/2019



### E-commerce still vulnerable to VAT and customs duty evasion

Many challenges in collecting correct amounts of VAT and customs duties on e-commerce remain to be resolved, according to a new report from the European Court of Auditors. In particular, EU controls are insufficient to prevent fraud and detect abuse, while enforcement of collection is still not effective. However, recent developments and new provisions for 2021 address a number of weaknesses identified, say the auditors.

[Click here for our report](#)

### Special report 13/2019

Published on 19/07/2019



### EU institutions generally well equipped to deal with unethical conduct, but rules should be further improved

Overall, the European Parliament, Council and Commission have put in place adequate ethical frameworks, according to a new report from the European Court of Auditors. But the auditors also identified certain areas where the coverage, specificity, clarity and level of guidance could be improved and harmonised, as well as examples of best practice. In addition, staff awareness and perception of the ethical framework and culture should be strengthened, say the auditors.

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## ECA publications in July/August/September/October 2019

### Audit preview

Published on 27/08/2019



### EU Auditors look at new imaging technologies for monitoring the CAP

The European Court of Auditors is conducting an audit to assess the EU's use of new imaging technologies to monitor the Common Agricultural Policy (CAP). In particular, the auditors will examine the support provided by the European Commission, as well as practices in the Member States. They will also consider the challenges hindering more rapid and extensive deployment of these new technologies.

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### Audit preview

Published on 29/08/2019



### Auditors assess EU support for industry 4.0 and digital innovation in Europe

The European Court of Auditors is conducting an audit of EU support and funding for digitising industry and boosting digital innovation in Europe. The auditors will examine whether the European Commission provides effective support to Member States for digitisation of their industries, and helps start-ups and small- and-medium sized enterprises (SMEs) in their efforts to go digital.

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### Special report 14/2019

Published on 05/09/2019



### Better outreach to citizens needed to improve effectiveness of European Commission's public consultations, say Auditors

The European Commission's framework for consulting the public during the development and evaluation of EU laws and policies is of a high standard, according to a new report by the European Court of Auditors. The performance of selected recent public consultations by the Commission has been satisfactory overall, say the auditors. However, they recommend that the Commission improve the way it reaches out to citizens to promote greater participation. In addition, it needs to better monitor and assess their contributions to protect against manipulation of results, they say.

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## ECA publications in July/August/September/October 2019

### Review 9/2019

Published on 12/09/2019



### Recent EU plans in defence entail performance

Member States' current military capabilities and cooperation do not match the new level of ambition of the EU's defence policy, according to a new review by the European Court of Auditors. Synergies between EU initiatives and other defence and security frameworks are essential, warn the auditors. In particular, a critical point is whether the EU will be able to complement NATO and avoid duplication and overlapping. However, recent initiatives at EU level and the proposed increase in funding entail performance risks.

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### Opinion 2/2019

Published on 19/09/2019



### EU auditors publish Opinion on the proposed financial regulation of the Single Resolution Board

The European Court of Auditors published an Opinion on the proposed financial regulation of the Single Resolution Board, which lays down the financial provisions for the EU body responsible for ensuring the orderly resolution of failing banks.

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### Special report 15/2019

Published on 24/09/2019



### 2014 EU staff reforms: considerable cost-savings, but also negative consequences for human resources, say Auditors

The 2014 staff reforms package has been successful in achieving significant savings, according to a new report from the European Court of Auditors. But the auditors also identified a mixed impact on staff and additional challenges for human resources management. Some of the negative consequences could have been mitigated, at least in part, if the reforms had been better prepared and monitored, say the auditors.

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## ECA publications in July/August/September/October 2019

### Review 10/2019

Published on 26/09/2019

### Winding-up of the European Coal and Steel Community nearly completed as planned, but proceeds from the remaining assets no longer sufficient to fund parallel research programme, say EU Auditors



The process of winding up the European Coal and Steel Community (ECSC) is almost complete, according to a new review by the European Court of Auditors. Meanwhile, however, revenues generated from its assets have become too low, given the current interest rates, to ensure sustained funding for a specific programme for research in the coal and steel sectors, say the auditors.

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### Audit preview

Published on 01/10/2019

### EU Auditors scrutinise exchange of tax information between Member States



The European Court of Auditors is conducting an audit to assess the effectiveness of the exchange of tax information in the EU. In particular, the auditors will review the system in place and assess how the European Commission supports its implementation and monitors its performance. They will also examine how EU Member States exchange information, and whether they make the best use of the data they receive.

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### Special report 16/2019

Published on 10/10/2019

### European environmental economic accounts should be made more useful



European environmental economic accounts (EEEAs) should be made more useful for policymakers, according to a new report from the European Court of Auditors. EEEAs are an important source of information for monitoring and evaluating environmental policies. But several issues prevent them from reaching their full potential, say the auditors.

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## ECA publications in July/August/September/October 2019

### 2018 annual report on EU agencies

Published on 15/10/2019



### EU Auditors sign off European Agencies' accounts, but call for action to improve financial management

The European Court of Auditors (ECA) has signed off the 2018 accounts of all 41 EU agencies as reliable and confirmed the positive results reported in previous years. In this year's annual report, published today, the auditors also gave all agencies a clean bill of health as regards their income and spending – except for the European Asylum Support Office (EASO), due to continuing issues affecting its payments. However, agencies should further improve financial management in different respects, and especially the way they conduct public procurement, to fully comply with the rules and ensure best value for money.

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### Audit preview

Published on 22/10/2019



### EU Auditors examine exceptional milk market measures

The European Court of Auditors is examining the exceptional measures the EU has taken to counteract the dairy market disturbances between 2014 and 2017. The auditors are assessing whether these measures, which cost some €740 million from the EU budget, were properly designed and adequately mitigated the effects of the disturbances. The auditors will also check whether the European Commission and the Member States are now better prepared for future dairy market disturbances.

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# NEXT EDITION

## Big data and digital audit



Source: Artificial-intelligence / Gerd Altmann de Pixabay

Are you a revolutionary spirit? If not, you better get ready, because soon you will find yourself in the middle of the Fourth Industrial Revolution! This digital revolution has been going on for a while and brought us the internet, smartphones and facial recognition software to tag your friends on Facebook. According to the World Economic Forum, this revolution '...is characterized by a fusion of technologies that is blurring the lines between the physical, digital, and biological spheres.' And these developments take place with an unprecedented speed, impacting – or disrupting – all aspects of our lives.

Apart from all the handy gadgets that make our lives easier, a fundamental element of this rapid digitalisation is the comprehensive and perpetual collection and storage of data and the development of tools to process and use that data, for good or bad, but also for bad purposes. The Fourth Industrial Revolution creates new opportunities to make our lives easier and of better quality, but it also presents us with new challenges and threats, such as the loss of privacy, disrupted labour markets, digital crime, or (deep) fake news.

In our next issue, we will try to find out what big and open data mean for the auditor and how the Fourth Industrial Revolution might affect the audit profession. While the use of good quality data can strengthen the accountability process, bad quality data may hinder the audit work and complicate accountability and well-informed decision-making. So, is there any difference between the previous Industrial Revolution and the Fourth Industrial Revolution? Will the auditor of the future have to choose between a red and a blue pill? Will he or she struggle to find new ways to verify the correctness of audit evidence while being flooded with terabytes of unprocessed data from dubious sources? Will big data and digital audit be a new addition to the toolbox the auditor has? Or will it fundamentally change the audit questions to be raised and herald a new era and role for auditors: a robotised audit Argos that reaches full audit coverage, in real time?

<b>EDITION HIGHLIGHTS</b>	<b>11</b>	<b>A pretence of a budget, a pretence of a union</b>
	<b>20</b>	<b>Surfacing the unused potential in the EU</b>
	<b>34</b>	<b>Promoting evidence-based decision making in the political process</b>
	<b>42</b>	<b>ECA's work on financial and economic governance - connecting expert views and citizens' concerns</b>
	<b>66</b>	<b>A determined CONT, counting on the in-depth knowledge of the ECA</b>
	<b>87</b>	<b>Money is not the main issue at times of crisis</b>
	<b>101</b>	<b>In praise of the budget</b>

COVER:  
ECA staff member on his way to a meeting in the European Parliament