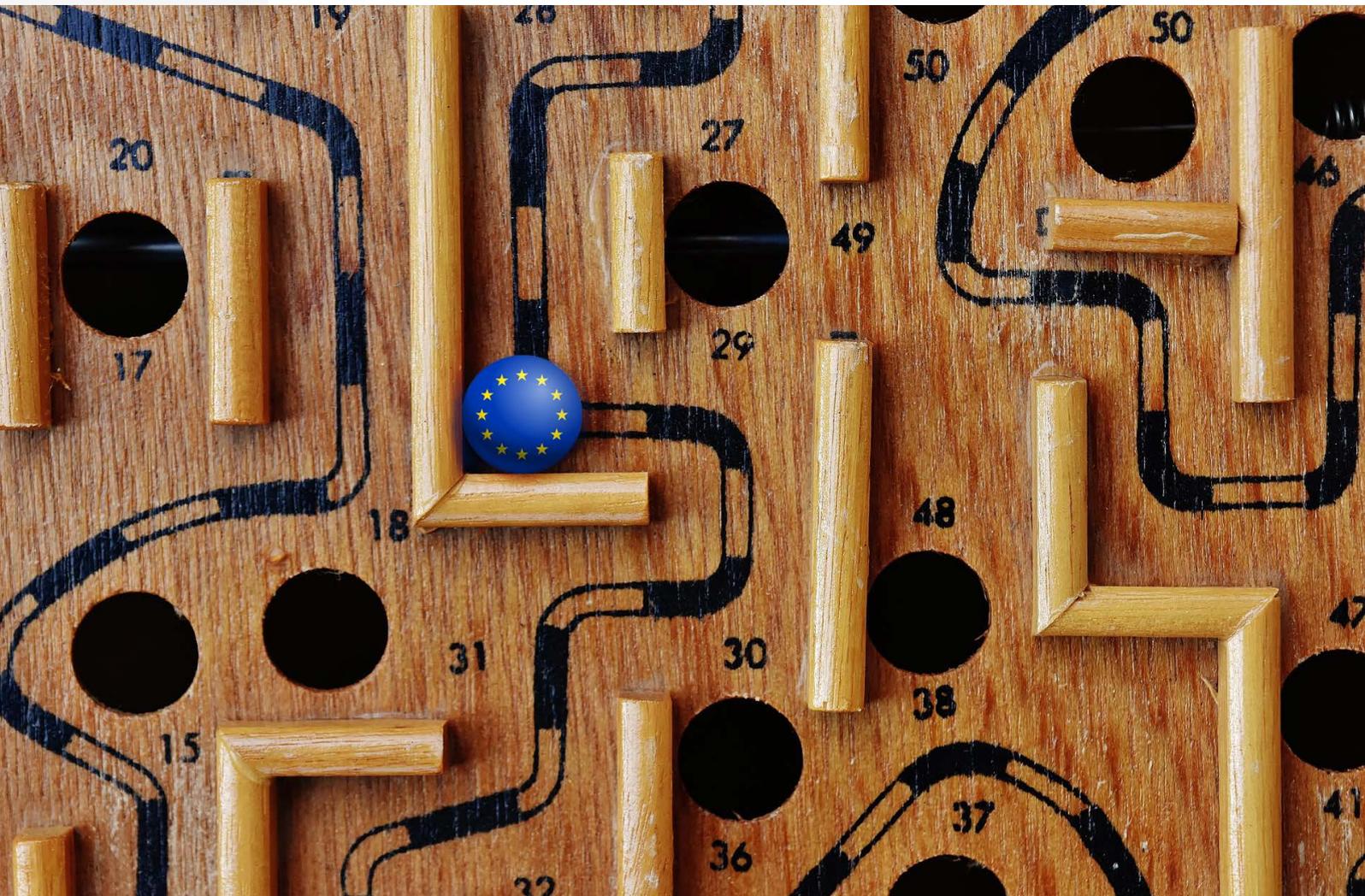


Strategy development in a rapidly changing world



**Any vision of the future must be
connected to decisions we take
in the present**

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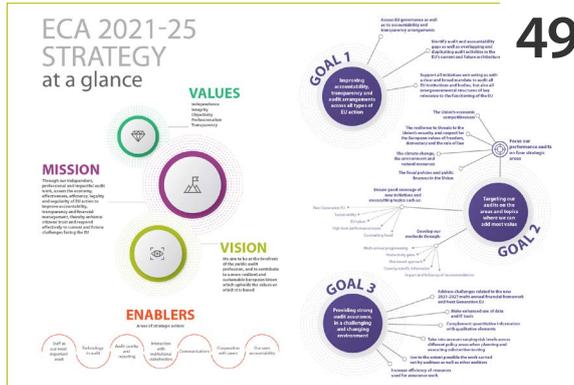


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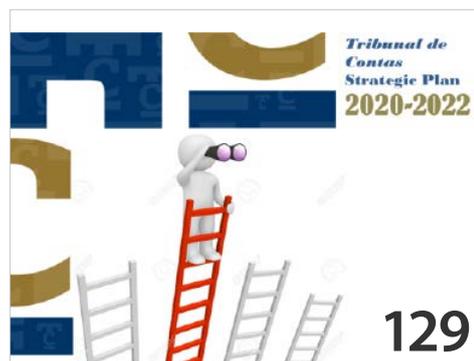
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A future built on strategic choices made now

'Action instead of talking!' That is what my late father used to say. At the same time, talking about *what* you want to do and *how* to do it best is also important. Even more so in today's world, which is driven by technological innovations (see pages 8 and 13) but characterised by major disruptions and seemingly uncontrollable events, such as climate change or the COVID-19 pandemic. Being prepared for what may come has perhaps become more difficult, but also more necessary. We have to be resilient. Getting a clear perspective on what you – as a person, or as part of a team, an organisation, a business, or of society – want to achieve to be 'future proof' or 'fit for purpose' requires a strategy. Otherwise, you may soon be in the business of firefighting, reacting rather than managing the change.

The idea of public sector organisations making conscious choices about their strategic orientation, above and beyond applying their mandate, is a recent one. In this process, citizens' needs have come more to the fore. So have foresight and scenario planning, approaches which make us think systematically about the future and possible solutions, informing and targeting decisions made in the present while offering the added resilience of alternative scenarios, should things not turn out as foreseen (see pages 19, 24, 193 and 200).

Public sector organisations, in whatever form, are affected, if not steered, by politics. And politics is about future. Who wants to talk about the past if we can only change the future? But often the discussion quickly focuses on the what and the how instead of the why of strategic choices, although a discussion of the why is crucial to gathering support for the efforts needed to reach the goals set and pay the bill. Examples are measures relating to climate change or industrial transformation towards the jobs of tomorrow. People are most afraid of things they do not understand; then they tend to fall back on assumptions, with the risk of polarisation lurking just around the corner.

In this context, providing evidence of why measures are necessary and showing the options we have to implement them have become more important. If we have seen one thing from the COVID-19 crisis, it is that scientific knowledge and evidence matters. At EU level, the von der Leyen Commission wants to build more than ever on evidence-based policy-making, fed by its Joint Research Centre (see page 44). As Commission Vice-President Maroš Šefčovič, responsible for strategic foresight, points out, we need to make the EU not only more resilient but also more autonomous: both aspects matter if we want to succeed with a green, digital and fair transition while respecting EU values (see page 33). Moreover, such strategic goals as resilience and inclusiveness can only be attained if the EU and its Member States join forces. For example, Spain has taken a strategic approach towards sectoral reforms, and Nadia Calvino, Deputy Prime Minister of Spain, comments on how her government is preparing for the 'new normal' of uncertainty and disruption with the aid of the Next Generation EU investments (see page 39).

Where do public auditors come into all this, looking at this volatile, uncertain, complex, and ambiguous world? How can the ECA – in its role as the EU's independent external auditor – contribute towards a more resilient, sustainable and fair Union? We asked three Presidents of EU Institutions for their reactions to the ECA's new 2020-25 Strategy: Ursula von der Leyen (European Commission), David Sassoli (European Parliament) and Charles Michel (European Council). The three identified different but complementary aspects where they expect the ECA to provide feedback on what works well and point out what could be done better (see page 53). We also asked politicians at EU and national level: Damian Boeselager, a Member of the European Parliament (page 143), and Kamila Gasiuk-Pihowicz, a Member of the Polish Sejm (page 149). Both have high expectations regarding the ECA's audits, including those on institutional governance arrangements and on the application of the rule of law.

Public auditors are auditing for a better future. Otherwise, why would you be auditing at all? This applies not only to the objective of a learning government, but also from an accountability perspective: holding accountable those responsible for past actions, so that others can decide whether they can continue tomorrow. As Peter Drucker, a management guru and visionary, said:



'The greatest danger in times of turbulence is not the turbulence – it is to act with yesterday's logic.' As ultimate fact-checkers, public auditors can produce the evidence-based findings and related recommendations on what worked well and what did not, advising where change – a new logic – is needed. Serving, as ECA Member Helga Berger puts it, as a 'catalyst for change' (see page 209).

Designing a multiannual strategy implies choices. The ECA 2020-25 Strategy makes choices based on the values that form the bedrock for its work; it has formulated strategic goals it wants to pursue and identified strategic policy areas where it considers greater focus to be vital (see page 49). Some choices may appear obvious (see page 67), others are built on insights obtained from many years of experience in auditing EU policies and programmes (see page 92). This experience also helps when assessing the new and innovative instruments created to address the consequences of the pandemic, such as the €750 billion 'Next Generation EU instrument' (see page 98). These new instruments may also result in long-term accountability challenges (see page 183). In such a volatile environment, public auditors may have to reconsider the focus of their work, for example by moving towards a whole-of-government assessment and evaluating impact, considerations which will affect the future of public audit (see page 155).

Designing the ECA strategy has been an intensive process, with the ECA aiming to involve both its staff and institutional stakeholders (see pages 57, 64, and 86). And this process is not yet over, as the discussions about the ECA 2021-25 strategy will also feed the ECA's contribution to the Conference on the Future of Europe. A key element in developing this new strategy was a peer review of the previous 2018-2020 strategy (see page 114). The lessons learnt from this peer review led to a different approach, with more focus on *how* to create a strategy, the use of innovative means and a stronger emphasis on ownership and commitment from both staff and the organisation's leadership (see pages 107, 170 and 188).

The ECA is not alone in plotting a strategic course. Many supreme audit institutions (SAIs) realise that aiming to increase the added value of their work requires them to make choices and to focus their actions. Strategic planning has become a common feature and SAIs are keen to share and discuss their experiences (see pages 119, 124, 129 and 134). The SAI community is stimulating the development of guidance and capacity development in this area, supported by specialists from both the public and the private sector (see pages 138, 160 and 165).

For more than a year now, we have been in the grip of the COVID-19 pandemic. This public health crisis, and its economic and societal consequences, have become a magnifying glass for the functioning of the public sector, including audit institutions such as the ECA (see pages 72 and 79). Moreover, it has raised the question of how public auditors can contribute effectively to the handling of such a crisis...during the crisis. Since last year, the ECA has published nine opinions and reviews on COVID-19-related issues (see page 103). The pandemic has also shown that, if need be, problems can be addressed and that the future is built on choices made today. It has also revealed yet another challenge for public auditors: governmental organisations taking decisions to avoid certain situations, to prevent certain scenarios happening. Whether the measures taken actually contributed to the outcome is sometimes difficult to assess. Subsequently, public scrutiny, including by auditors, can then focus on whether those measures were proportional. A new challenge in assessing the accountability of decision-making?

A multiannual strategy is also an instrument to promote accountability and adopting such a strategy signals a determination to achieve this: to stakeholders, to staff, to EU citizens. Making choices is a scary process in itself: are they the right choices? Do we have sufficient means – for SAIs, mainly staff – to achieve the choices made? Is there enough resilience and flexibility to adapt and change course, if necessary? Do the implementation plans really match the main objectives identified? Three aspects appear to be important to the success of any strategy: the prospect that it can actually succeed, leadership, and communication throughout, both internally and externally. But in the end, none of them count as much as one other thing: actually starting the walking after the talking... getting going, sooner rather than later!



Strategy development in the Age of Disruption

By Kumardev Chatterjee, Serial Tech Innovator, Entrepreneur and Expert



Source: guenterguni/Getty Images

Losing your foundation

Even before the COVID-19 pandemic hit the world, many analysts of past, present and future developments have already labelled the current times as the Age of Disruption. With unprecedented technological change taking place – for example in the domains of automation, artificial intelligence, genomics and nanotechnology, many aspects of our society – from health issues to competitiveness, from addressing climate change to demographic changes, will no doubt be affected too. Consequently, the role government wants to have vis-à-vis these changes and the way it functions itself, will also be subject to analysis and change. In his article, Kumardev Chatterjee, working with deep tech and a serial innovator and entrepreneur, zooms in on the decade of technological disruption 2021 - 2030: how we got here, what this will be and how to prepare and make use of it, in particular by the public sector.

2010 – 2020 - round-up of key disruptions and their Impact for this decade

The decade 2010 to 2020 can be firmly labelled as the decade of digital disruption and transformation. This decade went from the debut of the Apple iPad in 2010 that ushered in an entirely new dimension of 'personal' computing to the early adoption of 5G as the fastest growing mobile technology in history estimated to cover over 1 billion people i.e. 15 % of the global population by the end of 2020.

The firmest indicators of it all is the digital transformation of the global economy. At the eve of the past decade, in March 2009, the month in which the S&P 500 finally bottomed-out after the financial crisis that almost destroyed the eurozone, Technology stocks combined made up just 18 % of the index, while in March 2020, Technology stocks stood at a whopping 30.3 % of the index.

Key technology adoption milestones in this decade of disruption and transformation that have paved the way for the future included: mainstream usage of voice based virtual assistants (Siri, Alexa, Google and others); smartwatches (Pebble, followed by Apple, Samsung and others); AR/ VR (Augmented Reality/Virtual Reality: Oculus, HTC, Microsoft and others); electric vehicles (Tesla, Chevrolet, BMW and others) and personal mobility devices (e-scooters, hoverboards, unicycles and others).

Societal change is the fundamental bedrock of any global paradigm shift of this scale. The deep changes in how society functioned over the decade is well represented by this comparison: in 2010, Exxon Mobil was at the top of the S&P 500 and in 2020, it was not even in the top 10, with the top 5 being entirely Technology companies. There were no energy companies at all in the top 10, while Tesla debuted in 2020 and is currently at 7th position. The other dominant societal trend that keenly captured this decade of digital disruption and transformation is the rise of the [data economy](#) and its underpinning of the digital [gig economy](#), which, in the US alone, is expanding three times faster than the US workforce as a [whole](#).

Perhaps the greatest impact of the 2010s for this decade was the rise of what were collectively termed as Frontier / [Emerging Technologies](#): 3D printing, Electric Vehicles, XR, Omics, Artificial Intelligence; Autonomous / semi-autonomous / self-managing / self-driving robots, drones, cars; Distributed ledge (blockchain) based technology universe i.e. popularly known as crypto; plant-based / in-vitro meat, and quantum computing.

All of these developments have prepared the ground for even more significant disruption in this decade.

The Gigatrends of 2021 - 2030

Hindsight is 2020. What about foresight? Let's look-ahead for this decade. There is little doubt that this will be a decade of technological, economic and societal change unlike anything since the end of the Cold War or even that seminal year of massive global change, 1968.

There are several mega or what I would call Gigatrends that are fuelling and rocketing this change.

Post-Pandemic Society

The lockdowns have fundamentally affected many aspects of life, some for the worse: forced separation from loved-ones, sometimes tragically during their last period and moments; reduced economic prospects for individuals and businesses alike; declining mental health and fragmentation of societal cohesion, amongst others.

However there have undoubtedly been improvements too - history beating record scientific and medical advancements to deal with the virus, creating vaccines from scratch in less than a year, more quality time with loved-ones, massive reductions in pollution, and most importantly, [accelerated use of digital technologies](#) to work, shop, learn, socialise and create value, from which there is no going back.

[Terms](#) like *WFH* (working from home), *Zoom*, *Covideoparty* have become the norm but it is the technologies that underpin them that will define the 2020s. It is now broadly accepted that workers in a lot of the white-collar industries can be just as productive working from home as from the former 'office.' Sometimes, even more than before, due to lack of distractions, noise, the ability to work at hours that are more productive for an individual, breaks when needed and the ability to be as casual in dressing as one would like (within limits). Many workers particularly appreciate the efficiency gained and removal of frustrations derived from absence of the daily commute, a benefit in productivity that is then passed on to their companies.

The key trends that emerge from this Gigatrend are the acceleration of:

- homeworking technologies (including cybersecurity and privacy);
- automation of workflows;
- digitalisation of experiences (including XR, Digital Twins, Holograms);
- AI; and
- high-speed communications.

Autonomous Economy

The 2010s laid the groundwork for the advent of the [Autonomous Economy](#). Artificial Intelligence is enabling robots and drones to become more and more autonomous, to the extent that they can work on complex tasks collaboratively as teams just as humans do.

Advanced war machines such as [fighter jets](#) are becoming increasingly autonomous, as are the fundamental machines and operations at the heart of global supply chains from [trucks](#) to [ships](#) to [warehouses](#). Even healthcare is beginning to be transformed with [robot doctors](#).

This autonomy change we can also see in the domain of personal powered transport and mass rapid transport with technologies like [Hyperloop](#) (effectively travelling at speed in a vacuum using magnetic levitation), [Flying Cars](#), [Jet Packs](#) and [Air Taxis](#) and rapidly moving towards commercial operations. While their use is not commonplace yet, the technology is there and it is a matter of time (and regulation) before they will become more widespread. Cue the opening of the [world's first airport](#) for flying cars and drones this year.

Finally, AI, Autonomy and high-speed communications is driving more space technology and its applications. This will add an additional dimension to the Autonomous Economy both in terms of pervasive high-speed connectivity for large-scale data-heavy and universal IIoT (Industrial Internet of Things), autonomous robots and vehicle communications as well as applications that exploit the wealth of data that continues to be generated, consumed, processed and traded amongst machines.

The role of the autonomous economy and the technologies they embrace will define the course of the 2020s as I mentioned in this [article](#): '5G, AI and Machine Learning are not just impacting innovation today; they are at the core of innovation in the upcoming Autonomous Economy. Autonomy is the one thing that will tie it all in, as we make this transition, to enable Intelligent Autonomous Systems in various industries, over 5G networks.'



Source: izusek/Getty Images

3D printer.

The Autonomous Economy is key to fighting climate change and many of the technologies used to power the autonomous economy will have a direct effect on managing climate change, from reduction of emissions to sustainable reuse. The Autonomous Economy will fundamentally change not only the way the world works, but also how we perceive it and how we interact with it as individuals and societies.

The key trends that emerge from this Gigatrend are the acceleration of:

- smart and inclusive cities;
- industry 4.0;
- autonomous robot workforces;
- autonomous personal and mass zero-emissions mobility;
- AI supported workflows;
- real-time natural language processing;
- quantum computing;
- high-speed communications;
- cybersecurity;
- 3D printing; and
- space tech (communications, Small Satellites, Artificial Habitats, Robotics).

Individual de-materialisation

The trend towards individuals de-materialising their lifestyles and making choices that support this approach is only increasing, and not just among the younger generations. The overriding trend is to not to accumulate objects / physical assets, and instead focus on experiences and digital symbols.

The drive is to reduce one's own [carbon-footprint](#), and invest in experiences over things and access over ownership leading to the rise of [experience and access economy](#) over more traditional pillars of society such as generational house ownership and sustainable pension pots.

The very concept of what constitutes success has started to change dramatically, particularly for [millennials](#) – success is no longer about how financial prosperity but freedom of movement and ability to immerse and experience the world, offline and online and have a healthy, personalised, sustainable lifestyle where choices of everyday matters from food to transport to consumption are carefully balanced.



Source: iJubaphoto / Getty Images

Lab-grown or in vitro meat

The net effect of this will be the use of a range of new and cutting-edge frontier / emerging technologies, that today are at the edge of commercialisation and mass adoption alongside existing and growing trends to build a more inclusive, sustainable green economy – with focus on climate change, energy, agriculture and sustainable reuse.

The key trends that emerge from this Gigatrend are the acceleration of:

- renewable energy (including new sources and methods);
- sustainable manufacturing and recycling;
- biotechnology for sustainable farming (including vertical farming);
- distributed ledger technology and applications;
- plant-based / invitro meat and artificial proteins;
- digital assets (Non-Fungible Tokens or NFTs that represent digital assets like digital art pieces or even events);
- electric vehicles;
- battery technology (including hydrogen and fuel-cells); and
- personalised health (Omics, Exoskeletons).

The state and pace of change

The state and pace of such technologically driven economic and societal change is fast and furious. A simple look at the 2010 decade is an ample indicator of this hard truth. In this [video](#) is what I predicted d clearly a lot of it has been achieved / started to be achieved.

Time and Technology wait for no one, AI bots included. Indeed, some [forecast experts](#) expect that, while the 'global digital transformation market was valued at USD 998.99 billion in 2020, it will reach a value of USD 2744.68 billion by 2026, at a Compound Annual Growth Rate (CAGR) of 18.5 % over 2021-2026. (

There are fears that the net effect of these trends, and particularly AI, 5G and the Autonomous economy, will lead to large-scale job-losses. However, it is more than likely that by 2030, [AI will lead to an estimated USD15.7 trillion](#), or 26 % increase, in global GDP. In other words, AI will create more jobs than it destroys and that will be a lasting benefit for all.

The challenge for public policy and regulations

The [increasing complexity of the policy making](#) landscape is evident from the above. The diversification and at the same time increase in complexity of technologies, trends and both their manifestation at the societal level and direct impact on individuals, families and communities makes policy making fraught with concerns of how to achieve stated goals in a fair and balanced way that holds up to scrutiny. Policy makers need to decode both the impact and the trajectory of these technologies and trends on their core constituents. Merely comprehending the bits and bytes, nuts and bolts is simply not enough.

Furthermore, merely understanding these aspects is only part of the tasks before policy makers. They need to also grapple with the topics that are "side-effects" but serious in their

import, for e.g. [Ethics in AI](#), [Human Factors in Autonomous Vehicles](#), [Environmental and Energy concerns around distributed ledger applications](#) and societal concerns around genetic engineering ([lab-created embryos](#), [designer babies](#), [super humans](#)), to name just a few.

Yes, specialist and experience knowledge is required, but the question is how and in which format? The World Economic Forum takes a straightforward approach to this matter and has for years its carefully selected (from nominations from existing members) and well-curated formal Expert forum on a wide range of topics (of which I have had the privilege of being a member for almost a decade now), and global agenda council. Through this the Forum provides cutting-edge data, insights and expert advice making its outputs (free to the world) both highly regarded and useful for action taking. The OECD takes a similar approach to manage ever-changing complexity with specifically constituted expert forums per topic. The essential aspect of these approaches is that experts are not-invited post-facto to 'analyse the impact' of policies, but proactively, to help inform, shape and adjust approaches during the whole policy-making lifecycle.

Recommendations for public policy makers

Building on insights I obtained from working more than two decades as entrepreneur in technology and innovation, and my policy making support experience at the national (UK, Belgium) EU (Commission, Parliament) and global (US, World Economic Forum) levels, I arrive at three key recommendations for policy makers:

- consider the impact on the whole (Individual + Economy + Society) of policy framing, and not just on the specific stated goal / objective of the policy to the exclusion of everything else;
- use disruptive thinking and approaches that are not the norm. An example of this relates to the following. The collaborative economy (also called 'sharing' economy) is set to be almost USD335 billion by 2025. This entire sector was nowhere in the mind-space of policy-makers, economist-modellers and regulators / officials. In fact, many did their best to talk it down and block it at every turn. Yet, here we are with even the European Parliament making it clear that more needs to be done to [enable it](#), not disable it;
- as mentioned above, specific and detailed expertise as foundation for policy making, not just ad hoc but through the policy-making lifecycle, is key to ensuring currency, relevance and impact.

The role that public auditors can have here is crucial to say the least. As guardians of the public purse when it comes to ensuring that public spending, especially on policy making and implementation that meets the stated goals and objectives, they have a substantive role to play. This is even more important earlier in the lifecycle, and public auditors should play a more active role to support the policy-making process, by holding up a mirror on how previous policies have failed and how progress – or the lack of it, reconciles with the objectives set, also for further in the future. They should go even further, ensuring an audit of the policy-making process itself when it is in situ, so assessing the governance structure and process as such, to ensure close alignment with the broader governance goals set by legislators/leaders, besides the fine-grained lines in policy documents that ultimately create laws and regulations.

Benefits for the whole rather than the few

Strategy development in the age of disruption starts with a good understanding of how we arrived here at the start of this decade on the shoulders of disruptive technologies, business models, economic trends and societal changes in the 2010s. Policymakers and their ecosystem need to then grasp the complexities, interweaving and impact on society, individuals and communities of the upcoming Gigatrends of 2021 – 2030, which taken together will be profound.

Finally and crucially, they need a mind-set that is open to novelty and disruptive approaches to policy-making, which look to maximise the benefit for the whole rather than the few. Public auditors have a crucial role to play throughout the policy-making lifecycle to ensure that policy-implementation follows suit, not only regarding the details set, but in line with the overarching societal goals to enhance Europe's performance when it comes to sustainability, security and prosperity.

Addressing future opportunities ‘with our eyes wide open’

Interview with Ann Mettler, Vice President Europe at Breakthrough Energy

By Gaston Moonen



Ann Mettler

Source: Breakthrough Energy

The current age of technology is characterised by complexity but also by volatility. Policymakers have to take account of both these aspects. For Ann Mettler it is clear that the impact of technology spills over into many more areas than you may initially realise. Ann Mettler has more than two decades of experience in high-level public policy and strategy, operating at the intersection of technology, innovation, foresight and strategy. Until 2019, she served as Director-General at the European Commission’s internal strategy department, now she works at Breakthrough Energy, an organization established by Bill Gates to help the development and deployment of the clean technologies needed to achieve a net-zero emissions future. In this interview¹ she pleads for strategy-driven public sector organisations, for the EU and its Member States to be frontrunners in their capacity to deliver sound public services, and for an increasing need to preserve trust in the EU’s democratic processes.

Strategy development to remain fit for purpose

Until 2019, you worked as Director-General and head of the European Commission’s internal think tank, the European Political Strategy Centre (EPSC), for President Jean-Claude Juncker. Can you briefly explain what this work entailed and how strategy development and foresight influenced the work of the European Commission?

Ann Mettler: The European Commission is traditionally an institution that makes legislative proposals which then undergo a negotiation process with co-legislators that can take several years till implementation. But policy makers today operate in a very

¹ Ann Mettler gave this interview in a private capacity. Her answers are not attributable in any way to Gates Ventures or Breakthrough Energy.

volatile world. They need to react quickly to developments and new trends, be it in foreign policy, technology, security or public health.

The role of the European Political Strategy Centre was to identify trends and stimulate interdisciplinary discussions across Commission services to develop strategies to address them at an early stage. In essence, it was about making the Commission and the EU more resilient against crises and disruptions. But at the same time, it was also about reaping opportunities. Many changes on the horizon – for example the energy transition – can be very promising if Europe were to reap first-mover advantage in the development of clean technologies.

To illustrate, the EPSC flagged early on the growing importance of battery technology to achieve the EU's climate goals and also the massive market potential of this technology. This inspired the creation of a new initiative, the European Battery Alliance EBA. The EBA helped spark battery development in the EU, which has now in a short period of time become a global player in this growing industry.

Public sector organisations have statutory tasks and specific mandates, and this is also the case for public audit institutions. How important is it then to develop long-term strategies for public sector organisations if their tasks and responsibilities have already been laid out?

Ann Mettler: It is important because the world around us is changing. Organisations are created at a specific time and their mandates and internal organisation reflect the challenges of that specific time. As new trends arise, these organisations need to develop strategies on how to deal with these challenges – otherwise they are not fit for purpose and this can lead to an erosion of trust, which is particularly corrosive in democracies.

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... not fit for purpose (...) can lead to an erosion of trust, which is particularly corrosive in democracies.

Imagine an agency dealing with security not developing strategies on how to tackle cyberattacks, simply because there were no cyberattacks when the agency was created. Imagine an agency dealing with transport not taking into account climate change or the move towards electro mobility, or economics ministries, which could not anticipate what seismic changes digital technologies would unleash on global markets, and so on.

From your personal experience, which public sector strategy would you consider particularly successful? And what would you say are the main conditions to set the ground for a good and successful strategy?

Ann Mettler: The EU presented a very successful long-term climate strategy in 2018. Europe was the first continent to pledge net-zero emissions by 2050. And since then, this net-zero pledge has become the cornerstone of the current Commission's Green Deal and is being mainstreamed in all sectoral policies. The strategy was successful because it did not treat climate only as an environmental issue but articulated it as an economic issue - global competitiveness in clean tech - and as a social issue as well. Think of the hardship decarbonisation is causing in coal regions, which is one of the reasons why the current Commission initiated a Just Transition Fund . This comprehensive and inclusive approach helped to rally all Member States and all relevant political parties behind this goal. And it inspired other geographies to follow suit. Eight out of the ten largest economies today have net-zero pledges, so in this area Europe was definitely an early leader and trend-setter.

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Towards a whole-of-government approach

You have also served for several years as chair of the European Policy and Strategy System (ESPAS), an informal network of EU institutions, which monitors global trends and offers strategic foresight to the EU's decision-makers. What are in your view key issues EU institutions need to address to improve their long-term strategy development?

Ann Mettler: The European Commission has some of the world's best technical experts among its staff. But it needs to get better at looking at trends and challenges from a multi-disciplinary and cross-departmental perspective. We called that a whole-of-government approach.

Most challenges do not fall neatly into the responsibility of one department. Take for instance industrial policy, where value chains do not necessarily represent the sectoral organisation of the Commission's departments anymore, whether they be energy, transport, digital, etc. I am not calling for a reorganisation, but it is important to start with a holistic analysis of trends and challenges and then develop a cross-sectoral strategy. So, a lot of the important work is done at the very beginning of the policy process.

It was precisely the reason why I repeatedly called for the creation of a Policy Design Board. To date, there is only a Regulatory Scrutiny Board but -- in many ways -- it is starting its work too late, namely when a lot of policy formulation has already taken place. Why not start with a Policy Design Board, which could design policy outside of the usual silos, be inspired by global best practices and a rigorous, evidence-based trend and foresight analysis?

In earlier interviews and presentations, you highlighted the need to think interdisciplinary, to challenge the intellectual status quo, to really have an open mind and see the world through others' eyes, and to create safe-spaces for open debate. Do you consider these as key ingredients to link private sector developments to public sector strategy development?

Ann Mettler: I think these are key ingredients for running any type of organisation, be it public or private. The private sector has an advantage here because competition forces businesses to always stay alert and watch out for new trends and try new ideas. If a company becomes lethargic, it will not be able to remain at the cutting-edge and can go out of business. But to be honest, the private sector also often faces difficulties with disrupting itself from within. It is called the 'Innovators Dilemma' -- how to come up with innovations which challenge a company's successful, current business model. But if a company cannot do it to itself, others surely will, and many companies have fallen prey to their own acquiescence and lethargy.

In that sense, the public sector is a bit different because it does not face competition to the same extent, and many expect public services to be prudent and cautious rather than experimental and risk-taking. That being said, I think in democracies, a modern and responsive state that functions well is an absolute precondition. Otherwise, the trend towards politically authoritarian states -- but often with efficient and technocratic public administrations --- may well accelerate.

“ ... many expect public services to be prudent and cautious rather than experimental and risk-taking .

Assessing public expenditure in addressing long-term challenges

Public audit institutions are often affiliated with the past, assessing what has been realised, whether rules have been complied with and money spent well. Why then should long-term strategy development still be important for them?

Ann Mettler: It is for precisely this reason that I often sought the active engagement of public audit institutions, and why the ECA became a member of ESPAS during my mandate. But coming back to your question, whether or not money has been spent well is not only a checkbox exercise, i.e. whether all formal requirements have been met, but also a question of benchmarks. What do we measure against? What are the long-term trends and challenges that public expenditure is supposed to address? And is a Europe-only focus the right benchmark or should we compare ourselves with the best in the world? As I often used to say, 'if we want to live better than the rest of the world, we also have to be better'.

So it is about setting the right criteria and measurements. If we analyse that for instance climate change and population ageing are going to be key challenges in the decades ahead, public budgets should be assessed by whether or not they are adequately addressing these challenges and preparing for the future. I know that this is easier said than done but it is the only way to future-proof policy and prepare society for what is to come. Because the truth is we already know a lot about what awaits us in coming years and decades.

“ ... public budgets should be assessed by whether or not they are adequately addressing these challenges and preparing for the future.

By assessing policy delivery and impact, external public auditors can provide information that can form a critical component of evidence-based and evidence-informed policy-making, which normally underpins democracies. How could audit institutions provide most added value for the strategy development of public sector organisations? And how do you see the role external public auditors can play in the context of the response to the COVID-19 pandemic?

Ann Mettler: Public auditors should not only check in retrospect whether money has been spent effectively and efficiently to implement the priorities a specific government has set for itself. Governments take many factors into account when determining their political priorities, including specific stakeholder interests, and tend to have a short time horizon, usually one political mandate.

Audit institutions could run foresight exercises to better understand the trends that will underpin future policy development. It is important that audit really focuses on the underlying trends, as well as global benchmarks. I know that the ECA has worked to strengthen its foresight capabilities, which I recognise and applaud.



... It is important that audit really focuses on the underlying trends, as well as global benchmarks.

What will be very important, also in the context of the COVID-19 recovery, is that public auditors gain a better understanding of the dynamics of innovation. Why? Because we live in an age that is defined by global competition for technological supremacy – technology leadership has always been closely linked to economic wellbeing but is now also a matter of security, geopolitics, and strategic autonomy.

But it is important to understand that successful, breakthrough discoveries are rarely the result of linear – if you want budgetary – processes where one feeds R&D spending at the beginning and out comes a successful innovation. Innovation is almost always the result of risk-taking, repeated failures, pivots in the business model, and so on. Not exactly the kind of stuff that auditors like or understand. It explains to a large extent why Europe tends to be better at incremental innovation, but much less so at disruptive, breakthrough innovations. It is not a stretch to at least partly attribute this to the way public finances are managed and audited.

As an anecdote, I remember well when the EPSC organised a conference on the future multiannual financial framework. Instead of starting with the current budget priorities, our opening panel was about the grand challenges Europe was confronted with: climate change, lagging behind in digital tech and innovation, a declining share of global GDP, a volatile neighbourhood in its immediate geography, the rise of China, formidable and hitherto unknown security challenges – from online radicalisation and human trafficking to hybrid warfare. The audience was largely made up of national budget authorities. I think they learned a thing or two about how the world is changing. In hindsight, I am not sure it made a huge difference but it is important to have spaces within public administrations where these issues can come to the fore and be openly discussed.

Technological expertise opens up new perspectives

Even before the COVID-19 pandemic the past decade has often been characterised as the age of disruption, with digitalisation, climate change and the influence of media and social media on public opinion and trust in society. What is for you the keyway forward to better connect technological knowledge to policy areas, for public sector organisations to be abreast with innovation, to get a better idea of what big and smaller companies might come up with in the future and with what societal impact?

Ann Mettler: In my time at the Commission, I always spoke about the need for more technologists to be embedded in all policy processes. One would never contemplate regulation in the economic sphere without economists around the table, the same for any legal matters, which would never be discussed without lawyers on hand. But in my experience, technologists were sorely missing in many discussions, and they were particularly needed in areas that ostensibly had nothing to do with technology, such as foreign affairs, competition, development, or social policy. All these areas have been upended by technology and it would have been critical to have technologists embedded in these policy teams to better understand and anticipate trends.

Seeing now first-hand the enormous technological expertise that exists outside of the public sector, I really feel a need to bring both sides closer together – of course with all the ethical guidelines and precautions that rightfully exist. But, honestly, it is difficult to be ahead of the curve when it comes to technology and innovation when there is so little cross-fertilisation between the public and private sector. I cannot see how the magnitude of contemporary challenges can be met by the public or the private sector alone. This is why I consistently advocate for a new generation of Public-Private Partnerships that really deliver value for society and planet.



... I cannot see how the magnitude of contemporary challenges can be met by the public or the private sector alone.

In 2019, you changed jobs and started to work as Director Europe at Gates Ventures, the private office of Bill Gates that supports initiatives in clean energy innovation, education, healthcare, and other areas, seeking for global policy solutions, issues you are working on now in 'Breakthrough Energy.' One of the issues you highlighted is the role green hydrogen can play in the energy transition. What kind of strategic steps should the EU undertake to make this energy transition really happen and remain at the forefront? And has your work at Gates Ventures changed your perspective on strategy development in public organisations, and if so, in what sense?

Ann Mettler: Firstly, Bill's climate work has really taken off, which is why it was spun out of the private office and is now a standalone organisation called 'Breakthrough Energy.' Secondly, let me start with your last question: yes, my new remit has shown me how well-designed public sector strategies can move entire markets. Take, for example, the Commission's strategies on offshore renewable energy and on hydrogen. The Commission has given investors and corporates the confidence to invest massively in these sectors – and the Commission has not even presented a legislative proposal yet. But I will also say: regulation alone will not suffice. This is why President von der Leyen was absolutely correct when she introduced the European Green Deal as 'Europe's man on the moon' moment. Without a step change in research, innovation, breakthrough clean tech and bold investment decisions, climate neutrality will not materialise.

Coming back to hydrogen, it is again about implementing a whole-of-government approach. We need support for R&D, dedicated funding for demonstration projects and a number of legislative reforms to create markets for green hydrogen. I emphasise 'creating a market,' which means generating actual demand and *using* the technology, rather than just *developing* it. That is why we always look at the entirety of the innovation cycle – from early-stage R&D to late-stage deployment and scale-up – because invention is not innovation. We are good at research and R&D in Europe, less so in creating new, sizable companies that can scale globally.



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Crisis situations show: EU joining up makes us better off

To end on a clearly positive note: do you believe that the current crisis and the response of the EU and its Member States to the pandemic and its economic fallout has the potential to change the way we work together in Europe for the better?

Ann Mettler: I think it does. While the EU has certainly received its share of criticism, so have national governments and certain companies. If we learned one thing from this entire ordeal it is that we are all in this together. An instrument like the 'Next Generation EU' would have been unthinkable only two years ago. EU-wide procurement has, despite some initial hiccups, proven its worth. It is important to always think of the counterfactual. Would EU Member States be better off had they all negotiated on their own? I have my strong doubts. So, despite the volatility of the moment, I am very confident that the EU and its Member States have learned a lesson on why speed, better anticipation, and more joint-up policy matter. And another important insight has been that research excellence alone does not suffice in the absence of production and rapid scale-up capabilities. This goes back to my earlier point about invention versus innovation.



[regarding the pandemic]... the EU and its Member States have learned a lesson on why speed, better anticipation, and more joint-up policy matter.

The bottom line is: we already sensed in the Juncker Commission that public administrations need to become much more operational, delivering solutions in real time under enormous duress and maximum complexity. This is the new world we live in and I have no doubt that it is here to stay. So, we better get in the game with our eyes wide open to the challenges but especially the many opportunities that continue to abound.



Strategic foresight for future-ready recoveries

By Dexter Docherty and Alanna Markle, Organisation for Economic Cooperation and Development



Source: Alles bekijken/Getty images

Strategic foresight helps governments to consider alternative futures and identify new opportunities and challenges in the face of great change and uncertainty. As governments prepare to invest massively in recovery strategies, their use for strategic foresight is more important than ever. Public auditors can play a key role in helping this happen. Dexter Docherty and Alanna Markle work as Strategic Foresight Analysts at the OECD where they collaborate closely with OECD staff, national governments and foresight practitioners to explore disruptive changes that could occur in the future and the implications for policy decisions today. Below they point out how they also see a role for public auditors to make programmes more future-ready and support anticipatory governance.

Unprecedented public investments ahead

We find ourselves today at a historical turning point. Governments around the world are poised to make unprecedented public investments to assist with the recovery from the COVID-19 pandemic, as well as enact a number of important policy reforms to reduce carbon emissions and facilitate successful digitalisation. These investments and reforms will have impacts for decades to come.

These investments are being made in a context of tremendous [uncertainty](#) about what the future will bring [as a result of the pandemic](#), and also for example in terms of climate-related crises, technological innovation, and political turbulence. Futures thinking is needed more than ever to make sure that governments avoid mistakes that could have lasting consequences and seize the full-potential of this transformational moment. This is especially true for public auditors tasked with the ex-ante assessment of European recovery strategies.

There are two main ways in which auditors can begin to incorporate futures thinking into their efforts to ensure countries' plans for the COVID-19 recovery are future-ready. First, *strategic foresight* methods can be integrated into the work of auditors tasked with evaluating the robustness of policies, programs and institutions faced with an uncertain future. Second, they can support investment into broader systems of *anticipatory governance*, a [whole-of-government approach](#) to integrating futures thinking at every level of decision-making.

Strategic foresight

Strategic foresight is an approach to thinking systematically about the future to inform decision-making in the present. It is *not about predictions or forecasts*, which tend to project existing data and trends into the future. Rather, foresight starts from the explicit recognition that it is impossible to accurately or fully predict the future.



Foresight involves inquiry into assumptions about the future in an attempt to discover where commonly held expectations of continuity may be flawed, even if they are based on extensive historical data.

The OECD promotes the use of strategic foresight in policymaking as a crucial method for helping to ensure that the long-term strategies of governments are as future-ready as possible. Similarly, the European Commission has committed to putting ‘strategic foresight at the heart of EU policymaking’ and views foresight as an essential input for building long-term resilience in Europe.¹

In practical terms, this involves making use of multiple future scenarios to challenge commonly held assumptions and surface potential disruptions. This can be done through proactive engagement with the future that identifies signals of potential change and emerging disruptors. After these are identified, strategic foresight analysts try to conceive of the multitude of ways in which these emerging disruptors might impact many different systems and sectors of society. Through this sort of analysis, it is possible to design adaptive forward-looking strategies that are ready to be successful in a range of plausible futures.

Initial steps to incorporating foresight

While the development of world-class anticipatory governance capacity is a long-term investment, there are many small steps that can be taken today by any organisation to integrate elements of futures thinking into their operations. To begin with, decision-makers (and auditors) can help to ensure the future-readiness and long-term viability of proposed recovery strategies by asking a series of simple but targeted questions:

- What possible future changes or scenarios have you taken into account that could disrupt the success of this proposal or render it counter-productive in the years ahead?
 - a. What expectations and assumptions about the future is this strategy based on? What are the conditions under which these expectations and assumptions would cease to be reliable?
 - b. What key uncertainties about the future could have a bearing on this proposal? How would the proposed strategy hold up under alternative plausible extreme of these uncertainties?
 - c. What alternative scenarios have you considered from relevant existing foresight publications by your government or other organisations? Have the proposed strategies been stress-tested against these alternative scenarios?
- What steps have you taken to add monitoring and flexibility to the proposal so that rapid adjustments and adaptations could be made under changing conditions if necessary?
- What existing foresight capacity (e.g. foresight units within the government or foresight experts in universities or business) have you identified and engaged to help you to answer the questions above?

¹ European Commission, *2020 Strategic Foresight Report: Charting the Course Towards a More Resilient Europe*, 2020.

While no substitute for a full foresight process, applying such heuristics may serve to ensure that easily anticipated future challenges and opportunities are taken into account; instil an initial level of foresight reflection and accountability within policy proposals and debate; and prepare the ground for later, more substantial foresight efforts.

Moreover, it is a good organisational practice to dedicate staff time to basic horizon scanning, which involves research into emerging innovations and potentially disruptive developments. Awareness about these developments can be spread throughout the rest of the organisation through discussion sessions or scanning clubs where staff explore what could happen if the weak signals of change identified in the scanning were to grow into megatrends over the next decade.

Anticipatory governance

Anticipatory governance is the systematic embedding and application of futures thinking and strategic foresight through the entire governance architecture. Futures methods can be used to inform policy analysis, engagement, and decision-making. The OECD has worked with leading practitioners around the world to identify seven features of 'world class' anticipatory governance systems, each with multiple levels of advancement within them (see **Table 1**). The features are:

- shared understanding of the *role and purpose* for foresight in improving public policy through future-proofing policies, broadening perspectives on the possible, challenging orthodoxies, strengthening futures literacy;
- putting in place strong *incentives* or a mandate among leadership for foresight to improve public policy including through legislative commitments to foresight, creating parliamentary committees or departments of the future, and performance agreements that require rigorous foresight. Auditing standards for future-proofing policy and budgeting could likewise provide such an incentive;
- establishing and embedding *practices* for widespread ongoing application of foresight to improve public policy such as horizon-scanning, scenarios development, visioning, policy innovation and design, policy implementation, and many more foresight methodologies. The lasting impact of a foresight intervention does not only come from the final publications generated, but in the changed mindsets and new ideas embraced by those who are engaged in the conversations that lead to the final product;
- supporting *processes* for active participation of decision-makers and stakeholders at all levels in foresight to improve public policy including with parliamentarians, ministers and senior officials, public servants, stakeholders, and citizens. Good foresight prioritizes inclusiveness to avoid colonizing the future with the perspectives of only the privileged and powerful;
- fostering *institutions* to successfully perform the above practices and processes on an ongoing basis. This institutional support can come in many different forms from centralized foresight bodies that provide research and insights to the rest of government and society,² to mandates given to key ministries to integrate strategic foresight into operations such as audits or strategic planning, to coordinated networks of practitioners that allow for knowledge-sharing and capacity building among public servants;
- developing the *capacities* and skills to perform practices and processes and achieve foresight purposes. Examples of this include training and learning opportunities for key foresight functions such as public engagement on foresight, communicating foresight, commissioning foresight, designing foresight processes, foresight research, and anticipatory innovation; and

2 One of the most world-renowned examples of this is the Centre for Strategic Futures within Singapore's Prime Minister's Office. The CSF emerged in its current form as a heart of government think tank in 2009, but its history dates back to a Scenario Planning Office within the Prime Minister's Office established in 1995 and even earlier to future planning efforts within the Ministry of Defence in the 1980s.

- encouraging *collaboration* with global partners and others to advance shared foresight objectives including through joint foresight projects and processes, as well as hosting conferences and participating in global networks.

Table 1 - Features of ‘world class’ anticipatory governance systems, by level of advancement

Characteristic	Level 1	Level 2	Level 3
1. Purposes for foresight in improving public policy	Future-ready policies	Future-ready society	Futures literate and engaged population
2. Incentives or a mandate among leadership for foresight to improve public policy	Government commitment	Legislated commitment	Parliamentary and public oversight
3. Practices for widespread ongoing application of foresight to improve public policy	Occasional broad and thematic foresight studies	Ongoing horizon-scanning, scenario planning, visioning...	Systematic embedding of foresight in policy design, implementation
4. Processes for active participation of decision-makers and stakeholders at all levels in foresight to improve public policy	Participation of core foresight enthusiasts	Participation at all levels (incl. decision-makers)	Participation of citizens, civil society
5. Institutions to successfully perform the above practices and processes on an ongoing basis	Central foresight unit and cross-govt. networks	All ministries have foresight units, networks	External futures and foresight centres, etc.
6. Capacities and skills to perform practices and processes and achieve foresight purposes	Hire and train foresight specialists	Foresight literacy for all public servants	Futures and foresight literacy for citizens
7. Collaboration with global partners and others to advance shared foresight objectives	National	Regional	Global

OECD support for futures and foresight

The OECD supports its members and non-member governments in advancing towards the ideal of world class anticipatory governance in several ways. First, the OECD collaborates with governments and leading futurists globally to develop foresight processes and products. For example, the OECD Strategic Foresight Unit is currently developing a foresight toolkit to support countries in developing future-ready strategies to meet their commitments to net-zero greenhouse gas emissions. The OECD has also done recent thematic work on migration,³ education⁴ and digital transformation.⁵ These can be used by organisations as input into policy development and as a starting point for their own further foresight work.

3 OECD, (2019), *Towards 2035 Strategic Foresight: Making Migration and Integration Policies Future Ready*, OECD publishing, Paris, 2019. OECD (2020), *Back to the Future of Education*, idem.

4 OECD, (2021), *Going Digital in Latvia*, idem.

5 OECD, (2021), *Going Digital in Latvia*, idem.

Second, the OECD develops and delivers training programmes for civil servants based on a country's existing capacities and growth potential. Foresight capacity building develops the skills to conduct foresight processes and embed futures thinking into policymaking. The Strategic Foresight Unit includes capacity-building elements into its collaborative thematic projects, so by becoming involved in the OECD's foresight work, governments can strengthen their capacity through learning by doing. The Observatory on Public Sector Innovation at the OECD is one of the leading bodies partnering with countries to implement an [anticipatory innovation governance approach](#) .

Third, it provides baseline capacity evaluations on a country-level basis; an evaluation may focus on anticipatory governance capacity alone, or be considered in the context of a larger agenda such as policy tools for achieving the SDGs.

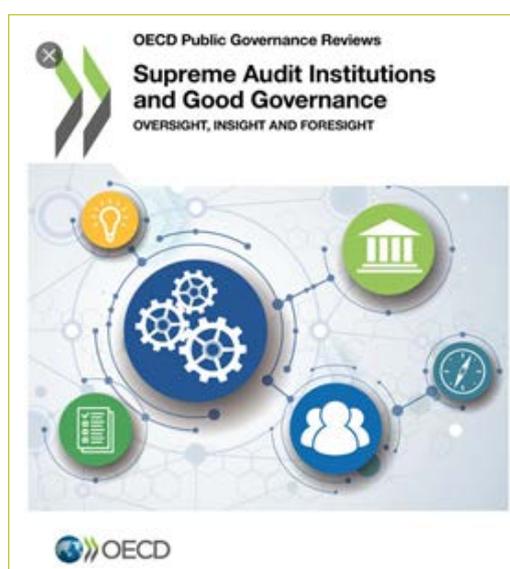
Fourth, the OECD Strategic Foresight Unit facilitates collaboration among government foresight practitioners through the Government Foresight Community, a global network of over 250 senior public sector foresight experts from more than 130 countries. Collaboration can be as simple as participation network events, but also involves joint initiatives, something that has been made significantly easier due to the COVID-19 boom in virtual work.

Opportunities for public auditors

In the recovery context and beyond, the responsible approach for policymakers is to explore and *prepare for a range of alternative plausible futures* rather than relying on assumptions. Public auditors can use foresight methods to test recovery plans and other long-term policy proposals against multiple future scenarios and evaluate their robustness. They can set standards requiring governments to use scenario planning as part of the budgeting process. They can include the identification of future assumptions required for their success as an element of transparency. Finally, they can create incentives for governments to develop the institutional culture and mechanisms required for world class anticipatory governance. More information on such methods can be found for example in a specific [OECD Public Governance Review](#) on this issue (see below).

Ultimately, anticipatory governance is about optimising government performance for the long-term. Strategic foresight and other futures method can play a crucial role in tackling wicked problems and intervening in complex adaptive systems.⁶ They can also serve as a means of testing that the assumptions of major strategic initiatives as well as ex-ante audits and evaluations are robust and likely to be resilient across a range of plausible futures.

Fully developed anticipatory governance capacity requires the participation of actors at every level of government. The auditor community would be a welcome addition to efforts to grow foresight capacity in governments around the world, as together we seek to build back better. As OECD Secretary-General Angel Gurría stated in his keynote address to the Government Foresight Community last October, '...the more minds and the more perspectives are brought together to coproduce projects, the stronger and the most effective the strategic foresight work becomes.'⁷



Source: OECD

6 Angela Wilkinson and Esther Eidinow, Evolving practices in environmental scenarios: a new scenario typology, in *Environmental Research Lett.* 3 045017, 2008.

7 [What future beyond Covid-19? - YouTube](#). The extensive meeting summary for the 2020 Government Foresight Community Meeting can be found here: [OECD GFC Annual Meeting Report 2020.pdf](#)

Scenario planning – a strategic approach for engaging the future

Interview with Rafael Ramirez, Director of the Oxford Scenarios Programme and Professor of Practice, and Trudi Lang, Senior Fellow in Management Practice, of the Saïd Business School, University of Oxford

By Derek Meijers and Gaston Moonen



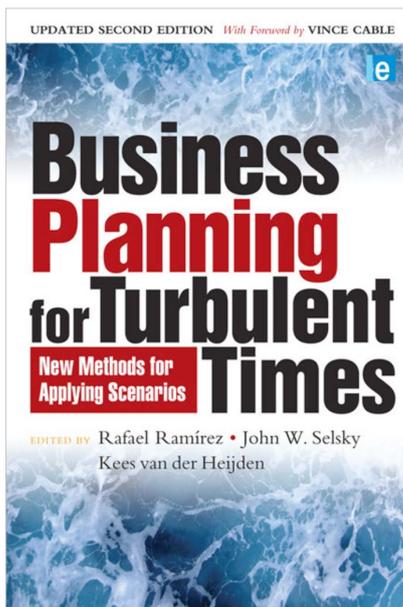
Rafael Ramirez and Trudi Lang

What is scenario planning? How does it relate to strategy development and what does a scenario planner actually do? And why is it relevant for any organisation, including those in the public sector such as public audit institutions? To find out we had a 'dual interview' with Rafael Ramirez, Professor of Practice and one of the world's leading experts on scenario planning, author of several publications on this topic and advising various organisations and governments regarding strategy and scenario planning. And with his colleague Trudi Lang, who has extensive experience in strategy and strategic foresight (World Economic Forum and OECD) and whose research includes the role of scenarios to build new social capital as part of developing strategy. Foresight, scenario planning and strategy development...distinct but very much interrelated activities, all aiming for the same goal: to effectively engage with the complexity and deep uncertainty of our world to deliver the best outcomes for our organisations and communities.

Scenarios - not only in theory...

Scenario planning is not totally new for the ECA Journal. And the ECA Journal is not new for Rafael Ramirez. In 2018, he contributed, together with two other experts working at the International Monetary Fund, to the ECA Journal with an [article](#) explaining how the IMF works on long-term trends and deals with uncertainties. In that article, they also described how the IMF concretely prepares for possible scenarios, including health disasters - in that case for a possible Ebola outbreak in poor countries. The IMF used scenario planning to get insights on how the IMF can help stop a non-economic trigger like a pandemic from causing a global snowball effect on economic growth and stability. Unfortunately, with the consequences of the COVID-19 pandemic in mind, we now know how realistic this scenario was.

Together Rafael Ramirez and Trudi Lang have worked for what together now is over 60 years using scenarios. Before coming to Oxford, Rafael was part of the Shell's – yes, the oil company – scenarios team and Professor of Management in Paris. He is co-editor of the book: *Business Planning for Turbulent Times – New Methods for Applying Scenarios* and co-author of the book: *Strategic Reframing, The Oxford Scenario Planning Approach*.



Cover of one of the publications of Professor Rafael Ramirez.

Trudi Lang was a Director of Strategic Foresight at the World Economic Forum and a consultant in this area at the OECD before joining the Saïd Business School at the University of Oxford. She teaches on the Oxford Scenarios Programme, co-directs the Oxford View of Strategy Programme, and works with leaders around the world to support them in the pursuit of their strategic objectives.

Where you stand shapes what you see

What is scenario planning actually and what does a scenario planner do? Trudi quickly defuses the idea that it is to do with trying to tell the future. 'For us in the Oxford approach to scenario planning, it is about working with leaders to help them *reframe* their strategic situation.

Every strategy or decision has framed the future in a

“*Every strategy or decision has framed the future in a certain way...*”

certain way - often as a set of tacit assumptions - yet given the complexity and deep uncertainty of most strategic situations, working with a couple of other frames or scenarios can be invaluable, providing new perspectives and options.

She makes a parallel to perceptual art. 'If you go to a gallery displaying perceptual art installations such as the work by Michael Murphy or the Nelson Mandela outdoor installation at Howick, South Africa you realise where you stand shapes what you see. Stand in front of an installation or close to it and you see one thing, move to the side or further away and you see something else. For her that is what scenario planning does. 'In our case, we are using different points in the conceptual future to provide different and informative perspectives on the present. And it is these alternative perspectives that are designed and developed to be so useful to decision makers and policy makers, useful because they provide alternative ways of seeing which can transform current understanding. This provides people with the opportunity to do things differently in the present.

“*... alternative perspectives (...) they provide alternative ways of seeing which can transform current understanding.*”

Rafael concurs with her. 'Regarding the way we think about scenario planning it is important to realise that it is not about foresight – not about anticipating the future. Instead, it is about informing and improving strategy here and now. Some people believe that scenario planning is part of foresight. Others believe that foresight should be an element of scenario planning. In the approach that we have developed in Oxford, it is about strategy, not about foresight. That is a very important distinction!'

Scenario planning successes – the tip of the iceberg?

When discussing the use of scenario planning by companies and governments, and how successful scenario planning is for organisations, Rafael explains that a lot of the scenario planning organisations do is confidential and thus stays below the radar of what the public can see. 'Most often a lot of very successful scenario planning remains secret or confidential. Imagine this – totally theoretical – example. Say you have Boeing and Airbus, the world's largest aircraft producers. Boeing is never going to tell Airbus that it does scenario planning. And the other way around. Because the moment they know that you are doing scenario planning that says quite a lot how you are thinking about your future context and how it might inform your strategy.' According to Rafael, many companies that do scenario planning will not publish the scenarios. 'Most often they will not even say that they do scenario planning so that their competitors do not understand that that is the way they are thinking about strategy.'

Rafael thinks that the same situation applies to different government departments. 'I have worked with government departments that do not necessarily want the next government department to know that they are doing scenario planning. Because, of course, then they might be seen as someone who is going to take the bigger part of the pie of money, resources, etc. than somebody else.' He points out that one of the difficulties researchers have is to know how much scenario planning is actually being done. 'The answer is: nobody knows because a lot of it is confidential. I can only answer about things that are in the public domain. And some of the most successful scenario planning we have heard about is not in the public domain.'

How much certainty one can attribute to the outputs of scenario planning is not only an abstract question, there is also a legal component to it. Rafael: 'From a legal point you may argue that scenarios are not facts but basically well-structured, well-researched, opinions. It goes back to pretty fundamental things that Trudi and I cover in the scenarios programme we give and which your colleague Derek took recently: what exactly is knowledge about the present as seen from the future when there are no facts in the future?' He gives the example of the scenario that London might flood in three years from now. 'But it does not mean it will flood. But if it does flood within that time-period, you having imagined that it might have done so is not a prediction, as would be the case if you were working on actuarial tables in an insurance company calculating premiums for flood insurance.'

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... what exactly is knowledge about the present as seen from the future when there are no facts in the future ?

He continues with the flooding example to give context to what governments have to deal with regarding scenarios. 'I was once told that 10% of the housing stock in the UK is built in flood lanes. The flood insurance for these homes is not as if they were located in Bermuda, where my understanding is that there is no government subsidy for flood insurance. So there must be an accord between government and the insurance industry about what is affordable flood insurance for the homeowner, and what part should be taken on by the public as a government expenditure or guarantee.' He explains that if you do scenarios which suggest that more climate change, more violent storms, higher tides and more floods, presumably the East of England or Holland will flood more often. 'If that scenario is considered useful, there would be flood insurance implications about it, affecting both the public and private purses. How much of these possibilities are the public domain I do not know. because a bad way of engaging this with the public and the insurance industry by the State could lead to horrific, unaffordable home insurance or even panic at being unable to sell your house. Of course, using the scenarios badly can also promote bad policy.' He underlines that how scenarios are used in strategy that is informed by scenario planning is crucial. He has several times seen aspects that are imagined with scenario planning that can inform strategic choices but which are not in public domain even when they were done by public institutions. 'Perhaps because there is a concern that one might have the wrong policy coming out of that rather than the right policy.'

Rafael and Trudi make clear that to identify success in scenario planning you have to know why you are doing the scenarios in the first place and for whom. When relating this to the ECA Rafael says: 'If we were doing scenarios on the future of the ECA, we might investigate how audits are going to be carried out and how this affects the ECA's daily work and procedures. If the work was going to be used by the ECA President and the ECA board to consider what kind of 'insurance' they should take up, the scenario set would be different than if they were to assess what kind of skills they should build or buy to become resilient, etc.' For him the value of doing these scenarios would be assessed in terms of the quality of the conversation it has enhanced in a not too far away board meeting, and how richly the scenarios would have informed ECA 's management about capital expenditure, human resource shifts, etc. 'Then we know if the scenarios were actually used in the sense that they were meant to be used. Then it is successful scenario planning. Whereas if you do scenario planning because it is a very interesting thing to do but you have no user and no use, then the whole thing is going to be useless.'

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... if the scenarios were actually used in the sense that they were meant to be used. Then it is successful scenario planning.

It is also important to distinguish scenarios from strategies. In the Oxford approach to scenario planning, strategies are what your organisation chooses to do in pursuit of its strategic objectives, while scenarios are assessments of the possible future contexts (of the external environment) within which your strategies will live. Trudi explains that scenarios themselves therefore don't include the organisation and its strategy, but instead provide a way to test and develop the organisation's strategy. 'This means that when I am involved in developing scenarios, I am always focused on providing the right sort of contextual information that will help leaders step into the scenarios and determine for themselves what is the best strategy or policy for their organisation.' Both scenario planners give some examples of public sector organisations that have used scenario planning, ranging from the IMF to the International Atomic Energy Agency, to the InterAmerican Development Bank, to the European Commission, to UNAids, to the European Patent Office, the EPO.

On the latter Trudi explains: 'Their particular scenario work was really valuable in developing new relationships with a lot of external partners. What they were doing in developing and using the scenarios was convening an invaluable strategic conversation about the future of patenting, which at the time was characterised by so many uncertainties related to innovation, trade, the amount of patents being filed, social issues around patents, etc.' According to Trudi the EPO scenario planning was successful in the sense that it provided a shared understanding of what was going on and a language to talk about it. 'For the EPO it built thought-leadership and new social capital with people and organisations across the sector and beyond'.

Engaging at possible futures in multiple ways

Since 2004, when Rafael and several colleagues started the programme at the University of Oxford, over 1200 people have graduated from the programme. An important element is to make the issue of plausibility scientifically viable. Both scenario planners do not think there is a big difference between scenario planning for a public organisation or a private company. Trudi: 'More important is clarity about the specific purpose and application of the scenario work.' Rafael adds: 'The bigger difference is also the professional training of the people you are working with. It is very different if you are doing it with medical doctors or natural scientists than it is to do it with economists, than it is to do it with lawyers, than it is to do it with MBAs. Professional training does make an important difference.'

When putting scenario planning in the current time frame of the pandemic, the interest in assessing how much more preventive health care actions should be invested in to prevent what might later on prove to be much higher costs in health treatment measures. To do so it helps to work across disciplines. Rafael gives an example of this - 'Some years ago a colleague and I were working with an association looking into the future of Alzheimer's. We found out that if you ask a particular medical specialist what would be the future of their field, they would normally say "We do not know; that is why we are doing research." But if you ask the same person - what do you think this other field could do for your research in the future? (for example, What would AI, nanotech, etc. be able to do for you?). Then they would say: "I hope that they can do X, Y, Z, because then I would then be able to do this kind of research which at the moment I can't do." As Trudi said already, creating this common language across the participants, with others both inside but for sure also outside your field does provide this kind of spectroscopy.' For Rafael this is one of the key added values: scenario planning allowing you to look at things or engage in a different way - which means you have to have different people in the room, with different perspectives.

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... creating this common language across the participants, with others both inside but for sure also outside your field does provide this kind of spectroscopy.”

Both Trudi and Rafael come back to one of the essential things scenario planning creates: a platform on which experts and remarkable people from many different areas, can come together and exchange perceptions (remember there are no facts about the

future) and develop a shared understanding of what is going on and of what the future may hold. Trudi identifies a common thread: 'Scenarios are helpful here because they are plural (coming in sets of two to four) that accommodate different views in situations of deep uncertainty. It helps that you do not have to agree. The focus of scenarios on the future also provides an imaginative, well structured, and safe space to explore divergent views without these views having to be linked to decisions on action.'

“ *The focus of scenarios on the future also provides an imaginative, well structured, and safe space to explore divergent views without these views having to be linked to decisions on action.* ”

She refers to a situation she saw in her research with the EPO. 'There were two groups who at the time were at loggerheads about the future of patenting. By taking each of their perspectives to their logical conclusions into the future in the scenarios both parties learnt more about not only the other's perspective, but also their own. This in turn opened the opportunity to subsequently work more constructively together on new options.

Rafael recalls another aspect related to EPO. 'They were very good at saying how different their work is from that of everybody else. And in a sense they are right- patenting is a unique setting where the private and the public meet. In the German tradition, patent assessors are basically judges; whereas in the French and British tradition they are industrial experts. Having these two identities in the same house doing what to an external party such as myself appears to be the same job. The public good and private good spheres means they are strategizing in a pluralistic setting, where disagreement has to be marshalled as an asset and not treated as a liability. The scenarios articulated this constructive disagreement productively from the future, not just in the present.' His experience is that everybody tells you that they are unique in what they do. 'Which is true, in many ways. Everybody is different in some way. For Trudi and I, and our students - including your colleague Derek - it is to see how we can adapt the methodology to be pertinent and be bespoke for the specific issues.'

Scenario planning - offering a common space...also for public auditors

Rafael and Trudi definitely believe that scenario planning could be of help for public auditors, looking at some substantial differences between supreme audit institutions, including in the EU. Rafael and Trudi think the way forward is to focus the conversation informed by different views of the future. Rafael says these might include, depending on the intended user and use: 'What are your challenges for auditing as a profession, if machine learning becomes important? For many good legal reasons, there is a lot of legacy that you have to consider in Tort law. But in the Napoleonic tradition, it is the rule and not the precedent which matters more. So a consideration in a given audit in the future is what the right balance might be between precedent and the rule if these are not aligned.'

Scenarios might also be deployed to ascertain the power different factions within the profession *could* have. 'Are there important differences relating to how the profession will look like in 5, 10 or 15 years from now? 'This not only in terms of relating to Block chain, to AI, etc. but also in terms of links with other professions that you might want to relate to, for example modellers.' Different groups tend to have different scenarios about the future, not only different priorities for the immediate present. 'I would hope that when the *Oxford approach* is used in the ECA it focuses the disagreements about what kind of future different groups are expecting rather than what tradition they come from in the past, making these disagreements a rich asset to inform strategic choices!'

“ *I would hope that when the Oxford approach is used in the ECA it focuses the disagreements about what kind of future different groups are expecting...* ”

It is clear that in the Oxford approach, scenario planning is a collaborative process. As to the question of who and how to engage people in the organisation and beyond, Trudi brings up again the term *social capital*. 'Who is involved and how, depends on the new networks and resources you want to create through the scenario planning. People think they are just accessing information when they are engaging with people in developing and using scenarios without realising they are leaving a footprint in the form of a

network. This network and the resources available in and through it can be absolutely vital for an organisation as research shows that the ability to build new social capital regularly over time is correlated with an organisation's success. So, when considering who to involve and how in scenario planning, think about what networks you want to build, the resources you want to access, the collaborative opportunities you want to create to help your organisation achieve its strategic objectives into the future.'

Rafael underlines that an important question you would have in this process is: what is your role in relation to auditing in the EU, and indeed beyond? He refers to what a president of EPO said on this. 'He said: "If I do not shape the conversation on future of my context, then instead of me convening the table, I will be on the menu of somebody else."' Rafael thinks that the ECA could consider having the ambition to be the convener of the conversation on the future of auditing, rather than being subjected to somebody else setting up a conversation 'which might not necessarily go in the interest of your mission, those you serve, your activities and your staff.'

When asked whether they see potential with more scenario programming present in the political debate to create a wider platform for listening to each other, Rafael is a bit more sceptical. 'That is difficult. I was invited to the canton of Geneva where they are looking at making a tunnel across the lake to alleviate traffic. The politicians sell preferred futures. That is their stock in trade, and why they get elected. The accountants, economists, and the engineers sell is probable futures: 'if the traffic is going to be this big, you need this bigger tunnel, and it is going to cost this much'. That is why their professional expertise is deployed. What scenario planners sell is plausible futures: what if the future politicians want does not happen? What if the probabilities the experts provide are wrong? What if trends one is counting on stop moving in a given direction, or clash with each other? What future context in the wider world does Geneva inhabit, and how does this affect traffic? What happens if electric cars drive themselves as a service and instead of private cars, you have fewer vehicles used more of the time. As a result of these three types of future, you have a dance between plausible futures, probable futures and preferred futures that must clash with each other or be made to relate to each other. Many politicians do not like plausible futures questioning their preferred future, and many experts do not like their probable ones being assessed in these terms either.'

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The politicians sell preferred futures. (...) The accountants, economists, and the engineers sell is probable futures...

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Many politicians do not like plausible futures questioning their preferred future, and many experts do not like their probable ones being assessed in these terms either.

It is clear that possible, plausible and preferred futures may have different price tags and a shift between them can lead to changes in funding. Rafael gives the example of diabetes. 'I do not know about Luxembourg, but in the UK prior to pandemic the biggest disease group by expenditure was diabetes. About 22% of National Health Service expenditure was going to diabetes and going up as a percentage.' One of the persons who led the scenarios on the future of diabetes said that what was most helpful, when the pandemic hit, for them, was not only that they had rehearsed a small number of scenarios - which they had. No, it was more that because they had rehearsed those alternative paths that they could exit the one that they were planning for much faster and earlier, adapting quickly to the new conditions the pandemic pushed onto them. They had rehearsed not only entering, but also exiting. Rafael concludes that if you have only one plan you are tied to it. 'But if you have one of two or three alternatives you most likely have also thought about how to shift from one to the other, and having rehearsed the shift, you can move sooner and save a lot of money and angst.'

Scenario planning appears to be on the rise

With the severe changes people and organisations experienced in 2020, also due to the pandemic, there is also an impact for scenario planners, going beyond working remotely. Rafael: 'The course that we teach has been filling up with a waiting line for several years. There is more demand for the work than Trudi and I can do in the school.' He points out that there are more and more corporate and government clients;

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There is more demand for the work than Trudi and I can do in the school.

government clients from Australia, many countries in the Middle East and in South East Asia, Europe, and several inter-governmental organisations. 'So yes, the demand is up.'

It turns out that a first important watershed on demand increase was 9/11. Rafael: 'That appears to have been where it really became acceptable for senior people to realise for themselves as well as with their peers and those who depend on their leadership that things they had not foreseen and predicted could occur. The big financial crisis in 2008 and 2009 enhanced this sense to imagine what the future might hold so one could be better prepared to seize new opportunities and address new challenges, and now the pandemic is also proving that engaging uncertainty is becoming even a higher priority. Unpredictable uncertainty is now part of the landscape and therefore methodologies such as ours is ... there is an uptake.' But the pandemic has also its downside. 'It has made working with scenario planning for everybody and not just in Oxford more difficult: everything is on Teams or Zoom. We are all Zoom-tired, we do not meet each other in person as much as we would like to, our research has been affected. But many more interesting people come as well with interesting issues and problems.'

From linear to exponential change

While having been in scenario planning for many decades, Rafael does not see himself as a specialist in imagining the future. 'I do not think that I am better, as scenario planning professor, to image future developments as any of my students is. I do not have better imagination and I did not imagine that this pandemic would be as severe, as long lasting, etc. I am not in the business of predicting the future.'

Trudi highlights one of the impacts of the pandemic on imagining the future and scenario planning. 'Humans have a bias for thinking of change in linear terms: that is, we tend to believe that things change along a straight line, in an additive way. What we are learning through the pandemic is how to engage with exponential change where things multiply so that the change is experienced as slow at the start but then rapidly takes off. The nature of exponential change was challenging for many policy makers at the start of the pandemic as the trajectory of the change was not initially clear.' For her talking about the future and possible scenarios, being aware of what sorts of factors in auditing might be characterised by exponential change as compared to linear change. As she and Rafael have [written](#), 'Look for percentage increases time on time (e.g., a percentage growth in something per annum). Note positive feedback loops to see where change is amplified and novel interconnections that can drive exponential growth. Don't dismiss what appear to be small changes.'



The nature of exponential change was challenging for many policy makers at the start of the pandemic as the trajectory of the change was not initially clear.

Exploring different horizons, including the ones you do not like

When discussing which characteristics a scenario planner should have to be successful and relate to change, Rafael is quick to answer: 'Being able to link with lots of people that read lots of things that they themselves don't. You really want to convene a very diverse group of people with different interests.' He recalls an experience with one of what he calls 'the many very good scenario planners that educated me.' 'My late friend Richard Norman and I flew around Europe, in the good old days when we could still fly around Europe. He would almost always go to a newsagent at an airport and he would get a magazine on totally different subjects, such as yachts. I said "Are you going to buy yourself a yacht?" He said "No, no! I want to understand how these people think." At the next airport, it would be photography. He just widened his horizon constantly.'

He points out that if you create a scenario team at the ECA you should bring in people that disagree with each other and still can listen to each other well. He gives an example of an organisation bringing two very divergent proponents together to hold a more mature and more courageous conversation with alternative points of view. 'That is the main one – to be able to convey different points of view that often disagree with each other and to make that constructive. As Trudi said before – if you put the disagreement in the conceptual future, it is a lot safer to disagree than to put the disagreement in the present.'

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... to be able to convey different points of view that often disagree with each other and to make that constructive. (...) if you put the disagreement in the conceptual future, it is a lot safer to disagree than to put the disagreement in the present.

Trudi adds: 'We – the scenario planners – are not the policy makers, we are not the decision makers. It is not right for us to be telling anyone what to do. Rather we see our role as creating contexts that we design to be helpful for leaders to explore things in a unique way for themselves. Whenever I am doing scenario planning, I am always thinking - is this helping the policy maker reframe, make sense, see anew, decide or do whatever they need to do? I am focused on helping people learn rather than telling people what they need to learn or what is right.' She notes that research supports this approach. 'People learn more quickly and effectively by not being told but by making sense of things for themselves. Rafael and I and our colleagues work hard to create stimulating learning experiences using scenarios.'

Rafael has some suggestions for public auditors looking for an environment where one can learn. In his view such environment will often relate to settings which initially may appear to be more challenging or with which public auditors might not feel familiar with. 'Look at where auditing happens in tougher environments than where the ECA is working in. What are they doing there? Think for example about evaluating development aid efforts with dodgy data on their return of the investment. Or issues which are not being audited at this time.' He gives the example relating to supply chain clarity and perhaps aspects which are not always 'bon ton' to speak about: 'If one fifth of the world's cotton were to be produced in an area that has forced labour camps, an audited clarity on the supply system might transform future demand.'

Other examples Rafael brings up relate to climate change – how it is going to be audited or not audited, and why. In many cases, Rafael suggests: 'The not audited part might be more strategically interesting than the audited part.' He refers to information he got from a former alumnus working in the UK Space Agency. 'One estimate is that 15% of the UK economy depends on space, including the provision of GPS locations by satellites, the enabling of fast communications, etc. So things that are up there affect 15% of the terrestrial economy. How are those 'services' audited, and by who, in which jurisdiction?' This can lead to opportunities for auditors. 'If you start thinking about in space what can be deployed for auditing – the Amazon forest burning, attacks on biodiversity, etc. lots of new fields open up' In his view the data captured by sensors in the 'internet of things' world opens up huge auditing opportunities – and challenges.

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The not audited part might be more strategically interesting than the audited part.

Speaking about data collection and the enormous capacity needed to store them, he raises another issue that might interest auditors: energy that is spent on data storage and use. 'A large corporate group in Germany has estimated that the percentage of the global electricity spent on data is going from 10% to 20% of the total usage of energy in the next decade. Is the ECA auditing the extent to which data is contributing to climate change?' Regarding climate issues, Rafael concludes that there are many natural conditions that are being taken for granted. 'But I can imagine auditors being called upon for holding people accountable for changing these conditions.'

Trust as condition... also for audit

In the scenario work Trudi and Rafael have been involved, the two experts have seen another big topic: how might governments report on inequality and trust, and how will public auditors deal with these issues? Rafael: 'What is the future of democracy? What is the future of trust? For example, in the US a large majority of the Republican voters

are certain that the last election for the US Presidency was stolen from them. How do these developments affect the EU? Is trust decreasing? How do you conduct your audit work without trust?' He points out that these are not hypothetical scenarios topics. 'This last scenario was one that the IMF looked at.'



Is trust decreasing? How do you conduct your audit work without trust?

Trudi explains that trust can also be an output of scenario planning. 'What I found from my research is that by intensely learning together to make sense of emerging changes people can rapidly build relationships and trust. In addition, by inviting people to participate in a scenario planning process that you are convening you are signalling an openness and an inclusiveness. And that too is enormously valuable in building trust.'

Talking to people outside your comfort zone can also result in trust in the choices you make as audit institution. Rafael concludes: 'I do not know where you become an auditor, but whoever is the Head of Department of the top 15 European schools for auditors would be very good persons for you to talk to. Because they would be educating the future auditor.' He refers to a case in the course material Rafael and Trudi use for their students in relation to strategic framing. 'The gastroenterologists, they did the same. When you educate a gastroenterologist for his or her future, what do you put in the curriculum today – what was key in the half-life of the Professor or what might be key in the half-life of the future gastroenterologist? You can be almost certain that the next generation of auditors will be different from ours. Scenario planning might be a source on what kind of things they may need to become competent at. It could be that part of their profession will include presenting scenarios that established public audit institutions may learn with, time and time again.'



You can be almost certain that the next generation of auditors will be different from ours.



Embedding strategic foresight in EU policymaking: charting the course towards more pro-active and anticipatory policies

Interview with Maroš Šefčovič, Vice-President of the European Commission for Interinstitutional Relations and Foresight

By Gaston Moonen



Source: European Commission

Maroš Šefčovič

Since 2019, Vice-President Maroš Šefčovič has been entrusted with looking after the Commission's strategic foresight activities. This is the first time that the College has a Member in charge of strategic foresight. In her mission letter to the Vice-President, President Ursula von der Leyen underlined this Commission's focus on the long-term interests of the Union's citizens, also in view of the transitions to be tackled, including the green and digital ones. The COVID-19 pandemic has also stressed even more how important it is to be able to anticipate unforeseen events, which strategic foresight can help to do. Resilience, as the ability to react and undergo transitions, is also the main focus of the Commission's first Strategic Foresight Report, adopted by the College and presented by Vice-President Maroš Šefčovič in September 2020. In this interview, building on his long experience with EU policies, he reflects on how strategic foresight has developed and needs to play an increasingly prominent role in order to shape the EU's policies towards a more resilient and better future.

Towards systematically mapping possible roads to a preferred future

You have been Commissioner since 2009, so about 12 years now. What is the biggest change you have seen regarding strategy development in your institution, not only regarding process but also regarding contents?

Maroš Šefčovič: The Commission's strategy has never developed in isolation, but always in response to the broader European and global context. Over time, we have learnt to combine the reactive and emergency responses needed to address the immediate crises we were facing with proactive and anticipatory policymaking, which is equally important in making the Union more resilient and better prepared to respond to unforeseen developments.

For example, when I first took up my duties in the *Barroso I* Commission in 2009, our mandate put the EU in pole position in the long-term fight against climate change. The Lisbon Treaty was also about to enter into force, laying the basis for the Union to take on new responsibilities. Then, during my term in the *Barroso II* Commission, the global financial crisis and the euro crisis dominated the political landscape and required unprecedented emergency measures and a substantial overhaul of our banking and financial markets legislation.

The *Juncker Commission's* ten strategic priorities spelled out an ambitious investment, trade and single market policy agenda. The goal was to help the Commission and the EU not only successfully address the effects of the global financial crisis but also keep a strategic focus on Europe's preparedness, while at the same time addressing new challenges, such as tensions with Russia over Ukraine, terrorist activity across Europe, Brexit, a more complex transatlantic relationship and the 2015 migration crisis. Together with a communication approach focused on people, these clear priorities allowed the Commission to effectively promote its achievements.

Today, [President von der Leyen's six headline ambitions](#) provide a clear roadmap that ensures continuity with the past, while emphasising the role of the transitions in Europe's climate and environmental policy, digital policy and geostrategic role. At the same time, the structure of the College, grouped around policy areas and overseen by Vice-Presidents under each specific headline ambition, strengthens the cross-sectoral and coherent way of working towards common objectives.

For the first time, the College now also has a Member in charge of strategic foresight, an office that I am proud to hold. This role was created in response to President von der Leyen's vision that it is only by embedding strategic foresight and long-term thinking in EU policymaking that our actions today can help shape a better future for Europe.

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... only by embedding strategic foresight and long-term thinking in EU policymaking (...) our actions today can help shape a better future for Europe.

Finally, let me mention that, with the European Council's Strategic Agenda, the first-ever interinstitutional joint conclusions on multiannual programming, and the now firmly established interinstitutional dialogue on the annual Commission work programmes and interinstitutional joint declarations on annual legislative priorities, both short and long-term strategic planning are firmly embedded in EU policymaking.

As the COVID-19 pandemic has demonstrated, there is no way for the Commission and the EU to plan for all possible global developments. However, Europe's swift and concrete response to this unprecedented health crisis showed the importance of an agile and forward-looking leadership that continues to deliver on long-term strategic priorities while ensuring responsiveness to unforeseen developments.

Indeed, the von der Leyen Commission has chosen to put foresight more at the forefront, making it part of your portfolio of responsibilities. Can you give some concrete examples of the impact of foresight on the Commission's policymaking?

Maroš Šefčovič: The pandemic has made clear that we must keep an eye on the horizon – to identify and understand emerging challenges and threats, to map possible paths to a preferred future and to better steer our action as a result. This is what strategic foresight is about: anticipating, exploring and acting to shape the future. Foresight has a key role to play in anticipating upcoming changes, and ensuring we are better prepared and thereby ultimately making better decisions and policy.

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Foresight has a key role to play in anticipating upcoming changes...

When setting up priorities for this College in September 2019, President von der Leyen asked me to lead the Commission's efforts to put strategic foresight at the heart of EU policymaking. Strategic foresight will guide the Commission in the transition towards a green, digital, fair and ultimately more resilient Europe. It will inform major policies and ensure that short-term actions are coherent with long-term objectives. Moreover, by embedding foresight in the new better regulation agenda, we will support more

evidence-based and forward-looking policymaking, able to provide the desired effects in the most sustainable, cost-effective and non-bureaucratic way.

For example, the foresight process has assisted the Commission's Directorate-General for Taxation and Customs Union with a strategic reflection on the future of the customs union in view of the Communication [Taking the Customs Union to the Next Level: a Plan for Action](#) of September 2020. That Action Plan identifies priority issues that will require customs authorities' attention in the next few years, and which are intended to be the first steps towards the 2040 vision. Strategic foresight will also inform, via a set of scenarios, the upcoming Long-Term Vision for Rural Areas planned for June 2021.

Moreover, our upcoming 2021 Strategic Foresight Report will be based on a full foresight cycle. This year's report will provide an in-depth analysis of Europe's open strategic autonomy and inform a discussion on a long-term, forward-looking and holistic strategy towards that goal. It will indicate critical strengths, vulnerabilities and policy implications for the EU looking ahead as far as 2040. Strengthening the EU's open strategic autonomy is necessary for Europe to bounce forward and emerge stronger from the pandemic, strengthening its resilience and succeeding in the green, digital and fair transitions.

“
... our upcoming 2021 Strategic Foresight Report (...) report will provide an in-depth analysis of Europe's open strategic autonomy...”

Connecting policies to long-term objectives, building also on relevant and timely audit reports

In September 2020, you published your first strategic foresight report, with 'resilience' as its central theme. In this report you launched resilience dashboards to stimulate discussion among Member States and others, including EU institutions, of how to better monitor resilience and better connect to long-term EU objectives regarding climate, digitalisation, social developments, etc., also taking into account the SDGs as a wider framework. Which role do you see for public audit institutions, both in Member States and at EU level, in these discussions and helping to reach these objectives?

Maroš Šefčovič: Public audit institutions will play an important role in ensuring that policies connect to long-term objectives regarding climate, digitalisation, social and geopolitical developments, both in the Member States and at EU level. For instance, the prototype resilience dashboards presented in the [2020 Strategic Foresight Report](#) flag some areas in which public audit institutions can act. These include public sector effectiveness and trust in institutions, as well as improving gender equality.

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Public audit institutions will play an important role in ensuring that policies connect to long-term objectives.”

Let me stress that the purpose of the resilience dashboards is to help Member States assess their ability to navigate the ongoing transitions amidst the challenges they face. The dashboards do not aim to rank countries but rather to highlight strengths and areas for improvement, including further analysis and policy action. As announced in the report, we are now working towards finalising the resilience dashboards together with Member States and other key stakeholders. This consultation will also allow us to have a discussion on how to make the best use of the resilience dashboards in the policy context, including the role that public audit institutions might play in such processes.

One of your responsibilities also concerns better regulation, a topic also highlighted under the previous Commission. What comes next on this topic and where do you see a role for the ECA?

Maroš Šefčovič: Better regulation has been a core feature of EU policymaking for nearly 20 years, with the Commission carrying out its first impact assessments and public consultations for legislative proposals in 2002. In order to deliver on Europe's digital and green transitions and the recovery from the pandemic, it is especially important to take informed and forward-looking policy decisions that deliver results for citizens and businesses. EU policies are developed on the basis of the best available information and take into account the views of stakeholders and citizens. Evaluations and impact

assessments also ensure that EU action is compatible with the principle of subsidiarity and adds EU value at minimum cost.

The European Court of Auditors has carried out a number of audits and reviews about our regulatory activities. Examples from recent years are the audits on *ex-post reviews* in 2018, or on *public consultations* in 2019, and a *better regulation review* in 2020. I am pleased that all these exercises recognised the very high quality of the Commission's better regulation framework. Similarly, the *OECD's 2018 Regulatory Policy Outlook report* rated the Commission framework amongst the best of its members for evaluations and impact assessments and the best for stakeholders' engagement. The ECA also acknowledged that the success of the better regulation agenda depends not only on the Commission but also on other EU institutions and Member States. I would like to emphasise that point.

The careful timing of the ECA's work has been instrumental. Your institution carried out its ex-post reviews audit just before, and the audit on public consultation at the same time as, the Commission's better regulation stocktaking, published in April 2019. So the ECA's results therefore came at the right moment, i.e. when the Commission was reviewing its better regulation guidance.

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The careful timing of the ECA's work has been instrumental.”

The Commission is going to publish a Communication on better regulation in 2021. This will set out how the Commission intends to further improve the better regulation framework. These improvements will be implemented by revising the better regulation toolbox and guidelines. This revision will take into account the findings of the better regulation stocktaking and the ECA's recommendations.

The better regulation agenda has brought about a cultural change which, however, is not necessarily irreversible. Evidence-based policymaking is required to respond effectively to emerging challenges and achieve our priority ambitions. It requires cooperation from all actors involved. The attention of the European Court of Auditors has added and will continue to add value to consolidate this shift in policy design.

Strategic foresight and auditors' feedback for informed decision-making leading to a more resilient Union

What is for you the main element, the key for resilience in the EU and its Member States, to overcome the pandemic and the related economic crisis? How do you see the role external public auditors can play in the COVID-19 pandemic for the long term?

Maroš Šefčovič: Europe's economy is going through its biggest recession in history. All Member States have been much affected by the health and economic fallout. In May 2020, the Commission proposed its *Next Generation EU* instrument, as part of a comprehensive and forceful response to the crisis on both the health and economic fronts. Next Generation EU is an unprecedented recovery tool of €750 billion, the largest package ever financed through the EU budget. It will not only help repair the immediate damage from the pandemic but also allow Member States to address long-standing issues and prepare for future challenges. The agreement on Next Generation EU in December 2020 provided proof of our joint commitment to support the Member States.

At the heart of Next Generation EU lies the *Recovery and Resilience Facility*, which will provide €672.5 billion in loans and grants to help the EU emerge stronger from this crisis. It will be a cornerstone for the Union to overcome the pandemic and restart the economy in a sustainable and resilient way. The Facility is anchored in the European Semester. In their recovery and resilience plans, Member States will have to include measures that have a lasting impact on potential growth, contribute to the twin transitions, create jobs and strengthen our economic, institutional and social resilience.

In this context, strategic foresight can help inform decisions on how best to spend these financial resources in order to achieve the mentioned goals. For instance, by equipping people with the right skills and incentivising companies to invest in the green and digital sectors, we can use this opportunity to restart our economies in a sustainable way and create a more resilient Union.

The EU budget is at the heart of our crisis response. The new Multiannual Financial Framework and Next Generation EU are a unique opportunity to build a more resilient and sustainable Europe but will require a high degree of vigilance. External auditors have helped us ensure that risks to the sound financial management of the EU budget are properly managed, and they will continue to do so. We have put in place a robust toolkit to protect the EU budget against fraud, conflicts of interest and double funding. These are all areas where audit findings will help us test and refine our control systems.



The new Multiannual Financial Framework and NextGenerationEU are a unique opportunity to build a more resilient and sustainable Europe but will require a high degree of vigilance.



... where audit findings will help us test and refine our control systems.

Auditing financial transactions is and will remain key for sound financial management. Equally important is that we deliver results for all Europeans. External audit can help us take a critical look at whether our programmes are performing and how we can do better. Auditing in a crisis context requires reprioritising and looking at the most pressing needs. Just as the Commission has had to focus its resources on the most pressing priorities, so too will external auditors have to consider how to most effectively employ their resources, focusing on areas where external audit can add most value, addressing the highest risks and making sure that audit work comes at the right stage of policy implementation. In this context, I welcome the shift from auditing transactions to auditing systems in order to ensure sound financial management and deliver results.

The pandemic will also have a lasting impact on how we live and work. There will be no 'back to normal,' but rather new ways of working with more digital and remote techniques, and a move towards more resilient and flexible workplaces. Our auditors, whether internal or external, have had to adjust quickly to the new situation. These changes are likely to endure even after the pandemic.

My main message is that external public auditors have a key role to play not only in crisis response but also in the longer-term recovery. There should be a constructive partnership between auditors and auditees, helping public authorities to make procedures, processes and systems quicker and more efficient, allowing for a more effective tackling of crisis situations and making the economic and social recovery smoother.



... external public auditors have a key role to play not only in crisis response but also in the longer-term recovery.

Another responsibility you have relates to the Conference on the Future of Europe. The idea is to have an inclusive and forward-looking forum identifying the changes needed for the future of the EU. Can you highlight some elements which, based on foresight information, should in your view be core elements that should be discussed during this Conference? What kind of result do you hope for, and how do you think the ECA can contribute to that?

Maroš Šefčovič: The Conference on the Future of Europe is more important than ever. One of the key lessons we can learn from the pandemic is the need to listen even more closely to citizens and to strengthen representative democracies. The Conference will provide a unique opportunity to discuss key issues for the future of all Europeans, as defined in the Joint Declaration signed by the Presidents of the European Parliament, the Council, and the Commission.

Participants can, however, raise any topic of interest to them. Strategic foresight can inform discussions and bring a forward-looking perspective – for instance, by looking into the impact of current and new megatrends such as digitalisation, deepening inequalities, environmental degradation and climate change, as well as the risk of new pandemics, topics that are in line with those included in the Joint Declaration.

The Conference will enable citizens from all walks of life and from all corners of the Union to participate, with a special focus on young people playing a central role in shaping the future of the European project. To make the conference a success, we need the support of the European Court of Auditors and all European institutions and bodies, in particular to reach out to the broadest possible cross-section of the European population.

Work has already started. The Executive Board, in which I participate as a member from the Commission together with Vice-Presidents Jourova and Šuica, has already met to take some first decisions. These touch on the Charter of the Conference, setting out the conditions for participation and organisation of the events and on the launching of a multilingual digital platform developed by the Commission, which will be the Conference's main hub.

Mutual learning to harness the green and digital transitions

What is your main advice for the ECA in view of the implementation of its 2021-2025 Strategy and where do you see most common ground between the Commission and the ECA to reach their strategic long-term objectives?

Maroš Šefčovič: We now have an opportunity to harness the green and digital transitions to build a stronger Europe. To succeed, we will need to have the right systems in place that work smoothly and efficiently and help us deliver on our common goals. This is where I see joint ground between the Commission and the ECA to reach our strategic objectives.

The relationship between auditor and auditee is always a privileged one. They learn from each other with every audit. They may have different perspectives on certain issues but their relationship should always be built on trust and mutual understanding.



The relationship between auditor and auditee is always a privileged one. (...) their relationship should always be built on trust and mutual understanding.

The best way to deliver on our common objectives is through close engagement and strong communication at all levels of our organisations. We have different roles but it should be our common objective to ensure that Europe delivers on its strategic goals as effectively, efficiently and economically as we can.

I have read the [ECA's new multiannual strategy](#) with great interest. I agree that providing strong audit assurance in a challenging and changing environment should be a clear priority for the ECA. We need to make sure that control strategies are up to the task of managing the hugely ambitious 2021-2027 multiannual financial framework and Next Generation EU. The focus should be on getting systems and processes right, addressing real weaknesses rather than focusing too much on individual transactions or measurements. We need to work together to ensure the risks are properly understood and addressed.



[regarding the NGEU] The focus should be on getting systems and processes right...

Performance is also an increasingly important part of the ECA's work. Here I fully agree that the ECA should target audits on the areas and topics where it can add the most value. With limited resources, it is important to concentrate on areas where the ECA has the expertise to make a real difference. For instance, I believe the focus should continue to be on getting the very most out of the EU budget and ensuring that taxpayers' money is put to the best possible use.

We can also learn from each other's working methods. We should look together at more innovative ways of auditing, such as remote and digital auditing, as well as developing new techniques to manage and reap the benefits from the enormous flow of digital data available to us. I believe there is huge potential for making audit work more efficient and effective through digital methods. This is also strategic foresight, after all.



Strategic thinking at all levels – designing better policies for a better life

Interview with Nadia Calviño, Deputy Prime Minister of Spain and Minister of Economic Affairs and Digital Transformation

By Gaston Moonen

Source: Ministry of Economic affairs and Digital Transformation of Spain



Nadia Calviño

Strategic thinking is something that happens at all levels of government, be it local, national or European level. How do they align with each other and how does a government reconcile national strategies with European or local ones, and vice versa? Nadia Calviño has been Deputy Prime Minister of Spain since 2020 and Minister of Economic Affairs and Digital Transformation since 2018. Before she worked for many years in the European Commission, from 2014 onwards as Director-General for Budget. So she is well placed to reflect on strategy considerations and how different governance levels can reinforce each other to design and realise better policies for a better life.

Sharing purpose, goals and priorities to achieve common aims

What do you consider the core added value of having a strategy?

Nadia Calviño: Having a strategy increases efficiency as it provides any organisation with a clear and shared vision about its purpose, goals, priorities, and also allows each person to understand in what way they contribute to common achievements. Throughout my career, I have seen how important it is for team members to understand the mission and priorities of the organisation and to work towards an inspiring aim. Moreover, having a well-known and predictable strategy generates confidence, which is essential for stability and facilitates decision-making by the private sector. A good example is the Recovery Plan for the Spanish economy, which we are currently working on. It provides a clear framework for implementing actions supporting growth and job creation in the short term but also for deploying a reform and investment programme to modernise the economy and achieve more sustainable and resilient growth in the medium and long term.

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... having a well-known and predictable strategy generates confidence, which is essential for stability and facilitates decision-making by the private sector.

The current Spanish government has taken a strategic approach to sectoral reforms in different policy areas. It has identified long-term objectives, reforms and measures, and subsequently also specific actions and priorities and resource allocation choices. What are the main long-term strategic goals of Spain in the European arena?

Nadia Calviño: The pandemic has revealed the weaknesses and strengths of our economies and accelerated structural changes, for instance in the area of digitalisation. This makes it urgent and unavoidable to implement, together with a substantial investment plan, some reforms which, until now, have been postponed.

The Spanish Recovery Plan has a clear architecture and a strong focus on four key levers closely aligned with the European agendas : the green transition, digital transformation, social and territorial cohesion, and gender equality. These cross-cutting objectives are deployed through 30 components with investment and reform packages to boost economic growth and job creation in the short run and also support the modernisation of our economic fabric and increase productivity, with a view to enhancing potential growth in the medium term. This unprecedented effort of public investment, around €70 billion in 2021-2023 - with 37 % for the green transition and 33% for digitalisation - will mobilise a large volume of private investment. In order to provide a clear roadmap, the Spanish government has already published detailed plans in the field of digitalisation and energy and climate transition, we have launched several calls for interest, in areas such as connectivity and 5G deployment, green hydrogen, industry transformation or electric mobility.

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The Spanish Recovery Plan has a clear architecture and a strong focus on four key levers closely aligned with the European agendas.

Strengthening resilience and inclusiveness to address disruption

Disruption is a popular word these days, even more so in these days of the Covid-19 pandemic. What does this word 'disruption' mean for you and has this meaning evolved during your career?

Nadia Calviño: Indeed, I have witnessed many situations that fit the idea of 'disruption' very well. It applies to the financial crisis but also more recently to the refugee crisis or Brexit and obviously to the severe shock caused by the COVID-19 pandemic. Not to speak of technological change, that has accelerated in the last two decades, opening up unimaginable opportunities but also multiplying the challenges on the economic and social front.

Actually, we should probably get used to uncertainty, intense change and disruption as part of the 'new normal.' This requires us to be ready to act in a fast and effective manner in the face of unexpected events, to be flexible to adapt to new needs and circumstances, and also to devote more attention to the need to reinforce our resilience to shocks on the health, economic, social and environmental fronts. Beyond short-term responses, we also need a mid-term perspective to keep on the right track so that disruption does not mean destabilisation.

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Beyond short-term responses, we also need a mid-term perspective to keep on the right track so that disruption does not mean destabilisation.

This is what we have tried to do since the pandemic hit us last March: establish a strong safety net and respond fast, without hesitation, to the health, economic and social crisis but always in a coherent manner with a mid-term strategic agenda. Actually, during 2020 we made significant progress with the modernisation of our energy sector and with the [Digital Spain 2025 agenda](#), and worked hard to put in place the necessary pieces to deploy the Recovery Plan, with a strong investment chapter in the 2021 budget and legal changes for efficient investment implementation. We need to act now to offset the negative impact of the pandemic, but also to ensure that the Next Generation EU investments lead to more sustainable and inclusive growth in the future.

You are Minister of Economic Affairs and Digital Transformation, dealing with topics which typically relate to long-term projects and strategies, if not often initiating them, such as the 2030 Industrial Strategy, the Internationalisation Strategy 2017-27, the Strategy to Counter

Demographic Challenges, or the strategy for the Circular Economy. How do you ensure that these strategies match, do not overlap too much or contradict each other, and how do you reconcile the objectives of these strategies with the day-to-day needs on the ground?

Nadia Calviño: As I mentioned before, for the last two and a half years we have been following a coherent economic policy roadmap, driving structural reforms, and this provides us with a solid basis for the Recovery Plan now. We are working on 30 components, coherent packages of investments and reforms to deploy €140 billion of public investments up to 2026, to achieve strong, sustainable and inclusive growth. The plan includes reforms which follow the country-specific recommendations under the European Semester process and are fully aligned with European priorities in the field of education, science, green hydrogen, climate change, digitalisation. They have wide and ambitious coverage, from energy to the labour market, from education to pensions, from science to business climate and the good functioning of the internal market.

Strong leadership from the top is key to ensuring that there is a common view and coherent action on the part of all players involved in such a massive endeavour. But there is also a need for appropriate governance to ensure dialogue and close cooperation with the regions, companies, social partners and others. This is our philosophy, not only for the Recovery Plan. Cooperation between all levels of administration and stakeholders is key to ensuring that investments lead to permanent changes and reforms have broad social and political support.



Strong leadership from the top is key to ensuring that there is a common view and coherent action on the part of all players involved in such a massive endeavour. But there is also a need for appropriate governance to ensure dialogue and close cooperation...

The year 2020 has been very different from what most people expected it to be. By many people, the COVID-19 pandemic is seen as a black swan that may have a large and game-changing impact. To what extent has this affected strategic thinking in your ministry in particular and in the Spanish government in general?

Nadia Calviño: Indeed, the pandemic has caused an unprecedented and severe economic shock. Moreover, the pandemic has accelerated structural trends and there is a clear risk that inequalities will widen, affecting especially the younger generations and women. In order to avoid a structural impact, we acted fast and in a coordinated manner to establish a safety net, which has been instrumental in protecting the economic fabric, jobs and household revenues, in protecting a basis on which to build the recovery. Beyond action to support economic activity, there is an even larger need for an inclusive strategy focused on closing social, territorial and gender gaps, reducing inequalities, and taking actions to provide good personal and professional prospects for future generations.

Our first priority in the coming months must be controlling the pandemic and accelerating vaccination, since the economy and health go hand in hand. But in parallel we must continue to support our companies, workers and families until we're back on the path of sustained economic growth, and launch the Recovery Plan which is key to increasing potential growth in the medium term, too.

Bundling forces for impact on the ground

In 2015, when you were Director-General for Budget at the European Commission, you were among the leaders who launched an initiative entitled 'The EU budget focused on results,' described as a long-term strategy aimed at making results a more horizontal priority in EU budgeting. How does strategy development in the European Commission differ from the strategy development your ministry has been/is working on?

Nadia Calviño: As I indicated earlier, strategic thinking is necessary at all levels of management. Establishing objectives, analysing our weaknesses and strengths, will allow us to make better decisions. This is particularly the case when we are dealing with public funds, which require good mechanisms to ensure sound financial management,

not only from the formal point of view but also in terms of substance. Indeed, having good audit and control mechanisms is a must to ensure that all formal rules are followed. But we must also be able to explain to citizens what we have achieved with the public investment, in what way it has improved people's lives.



... having good audit and control mechanisms is a must to ensure that all formal rules are followed. But we must also be able to explain to citizens what we have achieved...

We made good progress on this at the Commission, with clear results, I think, in terms of awareness and communication. And this same philosophy underlies our current work for the Spanish Recovery Plan, which has a clear focus on achieving results on the ground in key areas, such as education and vocational training, energy, sustainable mobility or the modernisation of public administration. Structural reforms aim to increase potential growth by more than 2%, and should allow us to reduce structural unemployment, to increase productivity and move towards a more inclusive and sustainable growth pattern, not only from the financial point of view but also from the environmental and social perspectives.

The current Commission has evidently formulated a number of long-term strategies, for example relating to digitalisation or climate action. How would you describe their influence on your strategy development in your areas of responsibility? And where do you see a clear impact of Member State strategies on EU strategy development?

Nadia Calviño: European agendas are of course very relevant for the design of national long-term strategies. Climate action and digitalisation are global challenges that require well-coordinated action at EU level. Spain always has a constructive and ambitious approach, contributing actively to the design of these common agendas so that we can maximise the impact of actions at national level and also reinforce our voice at global level.

In the context of the pandemic, the work of the European Commission - and all European institutions - has been instrumental. This time around, the EU has responded in a strong and united manner to the crisis, ensuring financial stability and supporting national governments in an effective manner. Beyond the ECB, the creation of new instruments, such as the SURE mechanism to provide funding for short-term work schemes, sends a strong message that the EU supports jobs and people. We need to continue working to ensure cooperation and a coordinated approach for it is clear that united we are stronger. The Next Generation EU programme is really key to moving in this direction.

Audit input to align ourselves with the highest European standards

Public auditors often seem to be concerned with the past, looking at past events. How do you think audit reports influence strategic developments?

Nadia Calviño: Audits are useful tools to learn from the past and improve our systems. We have recently adopted an executive order (Royal Decree Law 36/2020) to put in place a more streamlined administrative process to deploy the Recovery Plan, trying to remove the many overlaps and procedures which did not provide added value in terms of sound financial management. We are currently setting up the information and control systems, building on the strong public audit framework in place, to ensure swift implementation of investments, fully aligned with the highest European standards.

Auditors have a special responsibility to help improve and reinforce our systems. In order to be valuable, audits must be constructive, balanced and realistic, taking into account the specific features of different situations, so that they are a tool for learning and create the right incentives to improve financial management and the impact of our policies.

What are the three key elements for you to ensure that you can achieve the strategic objectives you are directly responsible for? And what is for you the most useful contribution public auditors in general and the ECA in particular can make to help you in your current work?

Nadia Calviño: A roadmap - with a coherent set of milestones and components - a timeline - for a clear understanding of objectives - and dialogue, are three key elements for a successful strategy . This last point is particularly important, in order to make sure that all players are aligned and that there is no unexpected backlash. And I would add a fourth element: hard work!



A roadmap - with a coherent set of milestones and components - a timeline - for a clear understanding of objectives - and dialogue, are three key elements for a successful strategy.

I would think that the main contribution the ECA can make is an open mind, constructive approach, flexibility and good understanding of the different nature, the complexities and challenges of the new mechanisms we are launching right now. The next Generation EU instruments are absolutely essential for the EU to recover and get back on the path of sustainable growth. We have a shared responsibility to make them a success.



'Any vision of the future must be connected to decisions we take in the present'

Interview with Stephen Quest, Director-General of the Joint Research Centre of the European Commission

By Gaston Moonen



Source: European Commission

Stephen Quest

Making strategic foresight a key element in the von der Leyen Commission's policy approach is one thing. Instilling foresight as part of the Commission's policymaking process is another. For this, the European Commission can build on the Competence Centre on Foresight at the Joint Research Centre (JRC), the Commission's internal science and knowledge base. One of the tasks of this Competence Centre on Foresight is to provide evidence-based information to help navigation through policy complexity and piloting the Union's strategic choices. Using strategic foresight as a tool to do so is a no-brainer for Stephen Quest and his colleagues at the JRC, who provided major input for the Commission's first annual Strategic Foresight Report, published in September 2020. Stephen Quest has been the JRC's Director-General since May 2020 and has served in similar senior management positions in the Commission since 2013. In this interview he zooms in on JRC and its foresight activities, the impact of the first Strategic Foresight Report and how important foresight literacy is for policy makers... and public auditors.

The JRC and strategic foresight

What are, in a nutshell, the key activities of the Joint Research Centre, and what role does the JRC's work play in the Commission's strategic thinking and planning?

Stephen Quest: The Joint Research Centre is the European Commission's science and knowledge service. We have six sites across Europe where our scientists do research across a broad array of topics to provide EU and national authorities with solid facts, robust scientific evidence, tools and practical support to deliver on our top political priorities and help tackle the big challenges facing our societies today.

As part of these activities, the JRC has long been associated with strategic thinking at the Commission. We also have a long tradition in foresight. Foresight studies have been around since the early 1990s, but often carried out on very specific technologies and at arm's length from high-level policy planning. During the pandemic, foresight has gained a new momentum and recognition at the highest political level. Because any vision of the future must be connected to decisions we take in the present.

The JRC's foresight work is increasingly feeding into long-term thinking underpinning top priorities, such as the European Green Deal, digital transformation, or the new focus on 'open strategic autonomy' - a concept which reflects the EU's desire to chart its own course on the global stage, shaping the world around us through leadership and engagement while preserving our interests and values.

“*The JRC's foresight work is increasingly feeding into long-term thinking underpinning top priorities...*”

In September 2020, the Commission published its 2020 Strategic Foresight Report, its first, for which the JRC provided significant input. What is, in your view, the essential takeaway from this report and how was it received?

Stephen Quest: The first Annual Strategic Foresight Report was a milestone publication: it sent a signal to the world that the European Commission was serious about using strategic foresight to support its policy ambitions. The need to focus on resilience seemed natural to us in the context of the pandemic.

“*The first Annual Strategic Foresight Report (...) it sent a signal to the world that the European Commission was serious about using strategic foresight to support its policy ambitions...*”

In my view, there are three main points that can be made about the impact of the report. First, it has created a positive dynamic for the use of strategic foresight for policy both inside the Commission and across EU institutions and beyond. Second, it has highlighted the importance of resilience for the EU in light of its ambitious Recovery Plan and well beyond. Resilience is something one builds over the long-term, so it reinforces the need to take long-term perspectives when building EU policies. Thirdly, beyond the EU institutions, it has unleashed a renewed interest in strategic foresight in Member States' governments. This will increase our collective capacity to foster anticipatory knowledge into better regulation strategy and policymaking, and think more strategically about shaping the future of Europe.

“*... increase our collective capacity to foster anticipatory knowledge into better regulation strategy and policymaking...*”

What do you think the role of such reports should be in the strategic planning process of the EU and its institutions, and what has the JRC, after publication in September 2020, done to stimulate this?

Stephen Quest: I think that you have used the right word in your question: process. Strategic planning is a process and strategic foresight is a way to structure insights and build collective intelligence about the future: it is a way to collaborate, re-use, co-create and share. Reports are the means to embed strategic foresight in EU policy design and pilot the Union's strategic choices.

“*Strategic planning is a process and strategic foresight is a way to structure insights and build collective intelligence about the future...*”

Just under a year ago, the Commission under the political steer of Vice-President Šefčovič set up its own internal Strategic Foresight Network and the JRC is at its core together with the Secretariat-General, providing expertise, increasing foresight literacy and running key foresight processes involving almost all Commission services. The JRC is also the Chair representing the Commission within [the European Strategy and Policy Analysis System \(ESPAS\) network](#), the inter-institutional foresight network.

Since the publication of the Strategic Foresight Report, work has also continued to enhance the prototype dashboards for monitoring resilience. The Commission is currently finalising an updated version that will be presented to Member States in the coming weeks. We are also working on the 2021 Report which, as I have already mentioned, will focus on Open Strategic Autonomy. The Commission has set up a special working group to develop scenarios and explore the potential world developments by 2040.

Focusing on facts for the sake of good policymaking

While strategic foresight is often related to things that will or may happen, the current Commission also wants to strengthen a culture of evidence-based policymaking in the Commission. How do you reconcile these two potentially contradictory aims – how factual is foresight? And how does a scientific approach hold up in a political environment that is often enough influenced by current affairs, short term thinking and Member State-level issues?

Stephen Quest: I see these two aims as complementary rather than contradictory. The collective intelligence generated by foresight processes is a valuable form of evidence: it re-uses, complements and enriches other knowledge.

A major area of research for [the JRC seeks to better understand the role facts play in political behaviour](#) and in policymaking, and to develop the skills needed to increase the uptake of evidence. Anticipation and strategic foresight belong among eight key skills we identify for good policymaking.

Strategic foresight is not a crystal ball. It offers a very structured approach to generate new understanding and insights. It does so by bringing together the vast knowledge and perspectives held by all the relevant stakeholders and experts on a given topic or policy domain. We know that policymaking and policymakers are under constant pressure created by urgent events and that this leads to the tendency to think short-term. In this respect, I would make two remarks.

First, we have developed strategic foresight tools that enable quick reflections: at the JRC we have identified [14 megatrends](#), and our foresight tools can be used to explore the implications of these megatrends on any policy issue or domain. These tools can help policymakers very quickly understand what might be the long-term impact of megatrends on the policy choices taken today.

Second, on instilling foresight as part of the policymaking process: we see that it is important to invest in increasing the foresight literacy of policymakers, both in the Commission and in the Member States. The JRC is increasingly active on this. Over the medium to long-term, we hope that this will contribute to a culture change, enabling our policymaking colleagues to take long-term thinking more naturally in their stride.

“ ... it is important to invest in increasing the foresight literacy of policymakers...”

The JRC is working on some of the key priorities of the von der Leyen Commission, which are also identified in the four dimensions of the 2020 Strategic Foresight Report, i.e. social and economic, geopolitical, green and digital. Can you give a concrete example of a foresight project the JRC is working on in one of these areas? And is there a specific foresight method the JRC uses in its foresight work?

Stephen Quest: We have several recent and ongoing foresight projects that really get to the heart of key priorities of the von der Leyen Commission - from securing the raw materials we need to drive the green and digital transition while remaining strategically autonomous, to transforming Europe's economy and reconciling the demands for food, materials and energy with the need to reduce environmental pressures. Here are a couple of other recent examples.

On the green dimension, [‘Farmers of the future’](#) explores how farming might develop in the coming 20 years, shedding light on how farmers and their business models might develop. It provides valuable insights for strategies related to [the European Green Deal](#), including the Farm to Fork Strategy and the Biodiversity Strategy, which aim to transform the EU towards long-term sustainability, and emphasise the role of farming for a healthy planet. Using a broad mix of foresight methods and tools, the study is an example of how the JRC-developed megatrends can be applied, facilitating a comprehensive exploration of the future.

At present the JRC is also analysing trends and weak signals, which could influence employment in the context of the green transition. The plan is to develop snapshots of the future by combining the trends analysis with the quantitative research. We will be able to provide results of this work in June this year.

Interest in strategic foresight on the rise

In view of the rapid changes many people perceive nowadays, do you see more or less interest in strategic thinking and foresight? Which challenges and opportunities do you see in the next ten years?

Stephen Quest: The challenges of the past year and the coronavirus pandemic clearly show the importance of strategic foresight. We are living in a world undergoing fast and profound transitions in a context of high volatility, uncertainty, complexity and ambiguity. In these circumstances, we see various groups of people offering radically different futures: some see doom and gloom following collapse, others have their minds full of technological solutions for a high-tech sustainable future, while the rest hark back towards a familiar past.

Strategic foresight is an approach that can reconcile these very different visions and chart a positive but realistic way forward for the EU in a challenging world. The megatrends already give a clear picture of a number of challenges and opportunities (including trends like climate change, technology development and demographic imbalances). We must make sure we understand all this to put the EU firmly in control of its own future to achieve its green and digital transition, in spite of the economic and social havoc created by the pandemic. The European Green Deal and [the Resilience and Recovery Facility](#) offer very valuable tools to make a success of the deep transformations we face.

A specific challenge we see in the coming decade is the increasing demand for critical raw materials to drive the twin digital and green transitions. [Our foresight analysis](#) shows that to meet the demand for materials to produce batteries for electric vehicles and energy storage, the EU economy would need up to 18 times more lithium and 5 times more cobalt in 2030. Foresight can help identify future demand and bottlenecks at various stages of these materials' value chains.

“ A specific challenge we see in the coming decade is the increasing demand for critical raw materials to drive the twin digital and green transitions.

Can you say something about the central focus of the second Strategic Foresight Report? How will it differ from the September 2020 Report?

Stephen Quest: After the focus on resilience developed by the first Annual Strategic Foresight Report, this year's focus will be on the open strategic autonomy of the EU. The main difference compared to the 2020 Strategic Foresight Report, is that this year there is a full foresight process underpinning the preparation of the report. This process is very participatory with the involvement of all the relevant Commission services, the ESPAS network, which also includes the European Court of Auditors, and other stakeholders and experts on open strategic autonomy. The process is developing insights on what are the main trends and uncertainties in terms of capacities and dependencies that Europe will face in regard to open strategic autonomy in the next two decades.

“ [on the second Annual Strategic Foresight Report]... developing insights on what are the main trends and uncertainties in terms of capacities and dependencies that Europe will face in regard to open strategic autonomy in the next two decades.

Transparency and trust are key to strategy implementation

You have had a long career in the European Commission and have led several DGs as Director-General. What is in your view the key element you need to pursue successfully - for an organisation - the implementation of a strategy?

Stephen Quest: For me the key to the success of any organisation's strategy has to be transparency and trust - at all stages of a strategy's implementation. As a leader, it is essential that your colleagues are on board: they must be both fully aware of your goals and vision, and share your confidence that together, you will see it through successfully. In fact, at the JRC that is how we are implementing our own strategic vision. We reach out across the organisation to get a broad view on where we are and where we want to be. We're identifying our major strengths and our value as an organisation, and how we can best mobilise those strengths to take us even further and be the best that we can, together. That openness and inclusivity will continue to be a guiding principle moving forward.

“ For me the key to the success of any organisation's strategy has to be transparency and trust - at all stages of a strategy's implementation.

Strategic foresight as a tool to achieve ECA's strategic goals

When you look at the new [2021-2025 ECA strategy](#), what stands out from a JRC point of view? How and where do you think the ECA as the EU's external auditor can provide added value regarding strategy development in EU institutions?

Stephen Quest: Audit is definitely an activity that can have strategic added value and that can apply foresight. In my opinion, there are three main ways this can happen.

The first is around Goal 1 of your strategy: Improving accountability, transparency and audit arrangements across all types of EU actions. The use of strategic foresight fosters the principles of good governance, accountability and transparency, as some of its main characteristics are inclusiveness, openness and public engagement.

The second is around Goal 2 of your strategy: Targeting our audits on the areas and topics where we can add most value. You have, for example, already used trends analysis to identify those areas where foresight can help understanding where the most value will accrue. Therefore, it requires having an understanding of the future evolution of the system being audited.

The third is within the auditing process, at the moment of assessing whether an action or an expense was justified. This moment of judgement can benefit from foresight as the conclusion might be quite different whether one takes a short-term or a long-term perspective. Was an expense a potentially useless cost if money was spent on things that were not used over the audit period? Or was it an investment in preparedness if seen in a longer term perspective?

“ ... judgement can benefit from foresight as the conclusion might be quite different whether one takes a short-term or a long-term perspective.

Both the JRC and the ECA participate in ESPAS and there are other forms of cooperation as well. How can the two organisations benefit from each other and what do you see as main common denominators regarding strategic foresight between the two, which are helpful to identify common objectives and ways to achieve them?

Stephen Quest: As a broad inter-institutional network, one of the merits of ESPAS is that it is largely informal. As a result, it is an ideal forum for free exchange, to brainstorm, confront ideas coming from different institutional perspectives and engage in joint foresight work. Its positioning makes it unique to develop certain reflections on the future of the EU. Our diverse missions and insights are an excellent basis to build the collective intelligence that we need.

The 2021-25 ECA Strategy – what is key and what is new about it?

By Andreas Bolkart, Directorate of the Presidency

In January 2021, the ECA College adopted the ECA 2021-2025 Strategy. What does this strategy contain? And in which way does it differ from the ECA's previous strategy? In this article, Andreas Bolkart, the Principal Manager who leads the strategy and planning team in the Directorate of the Presidency that supported the 2021-2025 strategy development process in the ECA, takes a step back and seeks to identify the essence of the new strategy. He provides two insights, first by means of a concentrated visual overview, and second through an analysis of what new orientations and change messages emerge when comparing the new strategy with the previous one.

A core message: an important feature of a good strategy

The term strategy has a military origin: a strategy is a comprehensive plan to achieve a better position in war and combat, but also in times of peace. It is successful if all generals and officers, and ideally all soldiers too, can understand it and put it into action. The same principle applies to the strategy of an organisation, such as the European Court of Auditors.

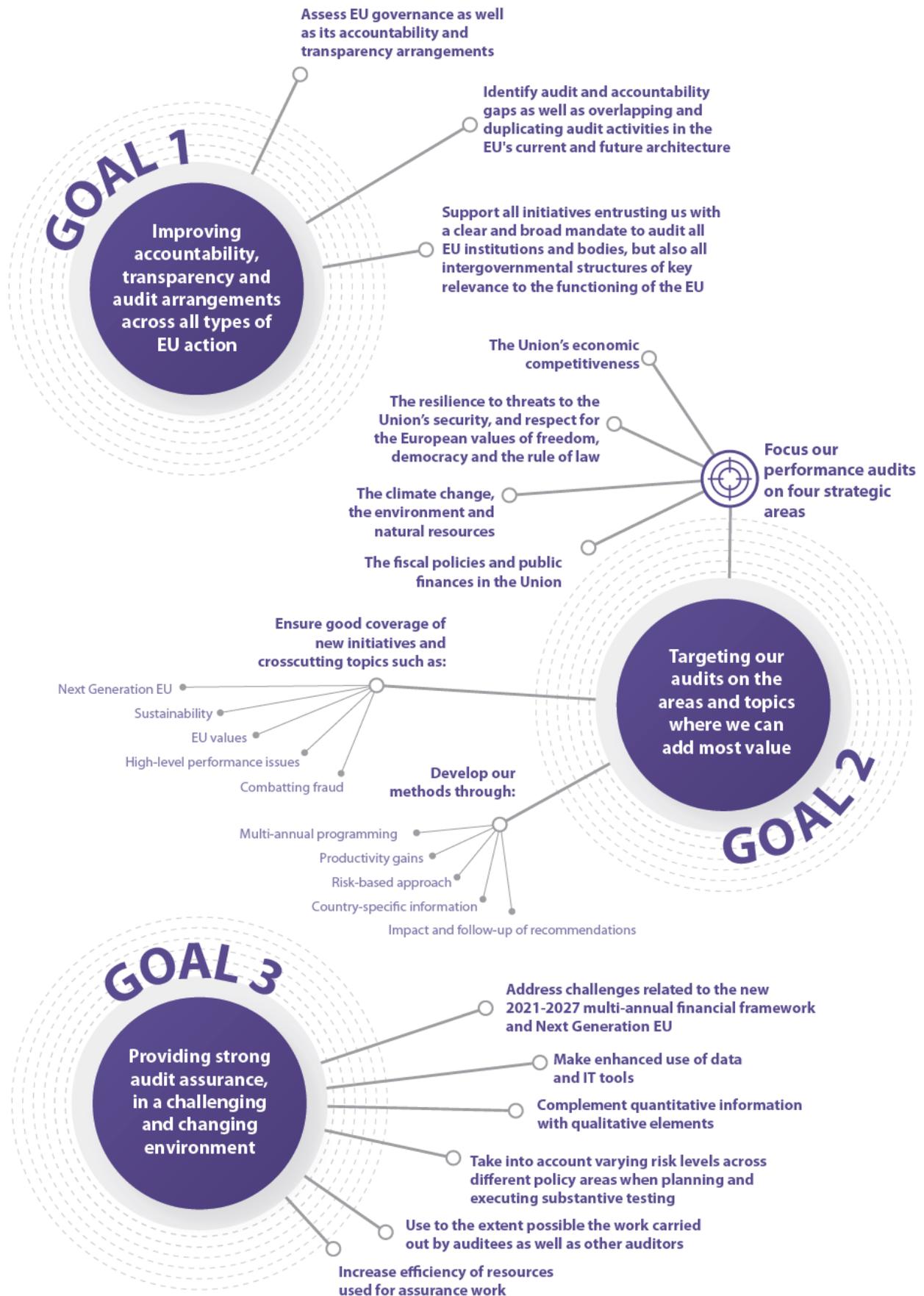
The easier it is to transmit the core change message of a strategy, the more likely it is that it will reach people inside and outside the organisation. That in turn increases the chances of instigating action, the ultimate goal of any strategy. For effective communication, shared ownership and implementation, it should be possible to reduce a strategy, even the most elaborate planning or multi-annual masterplan, to a core change message, a statement, a slogan or a motto. Often, this is easier said than done...

The 2021-2025 ECA Strategy 'in a nutshell'

So what is the 2021-2025 ECA strategy 'in a nutshell?' Below I offer two complementary attempts to answer this question. First, with the help of the ECA's graphic design team, I have condensed the strategy into a two-page infographic (**Figure 1**). Second, in the following paragraphs, I present the essence of the strategy based on an analysis of the most novel ideas in the strategy text. It is up to you to decide which of the two 'strategy nutshells' you like better...

Figure 1 – Infographic of the ECA 2021-25 Strategy





What is the essential change message in the strategy text?

Filtering out the essence of an already rather concentrated text is necessarily somewhat subjective, as each person might see different points of emphasis. As a start, one can easily identify parts of the text that reiterate the ECA's mandate, principles and previous orientations. This is the case for the first part of the mission statement and the values. Several affirmations under the three goals and the information under the headings in the section 'enabling our action' also reaffirm previous orientations or describe how the operational implications of the strategy will remain the same. These statements are important as they signal continuity and a confirmation of the ECA's core mandate and values. But they do not reveal in what direction the ECA will push for further development.

The mission and the vision statements are good potential sources of change messages, in particular if we look at differences between the 2018-2020 strategy and the new one. If we leave out the goals the ECA already set in the previous strategy and mission statement, the following novel items emerge. The ECA aims to *respond effectively to current and future challenges facing the EU, be at the forefront of the public audit profession, and contribute to a more resilient and sustainable EU which upholds the values on which it is based*. These statements illustrate that the ECA wants to take a forward-looking stance, sees responsibility for developing the public audit profession as a whole, and it places its audit work in the context of achieving the EU objectives of resilience, sustainability and defence of its values. This aligns the ECA with the European Parliament, the Council of the EU and the European Commission, who have set these concepts as key strategic objectives.

Goal 1 'Improving accountability, transparency and audit arrangements across all types of EU action' has many elements of continuity when it comes to promoting accountability and transparency. However, it takes a somewhat more proactive stance as to the scope of this work when stating that it aims to *identify audit and accountability gaps as well as overlapping and duplicating audit activities in the EU's current and future architecture*. Here we can see objectives concerned with actively finding and closing audit gaps, improving audit efficiency, and – again – we see a future-orientation. The ECA also states *that the best solution would be for the ECA to be mandated to audit all EU institutions and bodies set up by the Treaties, but also all intergovernmental structures that are of key relevance for the functioning of the EU*. This shows a very holistic interpretation of the ECA's contribution to EU accountability.

The four strategic areas under Goal 2 'Targeting our performance audits on the areas and topics where we can add most value' represent an evolution from the previous strategy. They bring new points of emphasis such as *competitiveness, respect for the European values of freedom, democracy and the rule of law and fiscal policies and public finances in the Union*. Dealing with the aftermath of the COVID-19 crisis, in particular the management of the Next Generation EU recovery programme, features prominently in both Goals 2 and 3, i.e. from a performance and statement of assurance audit perspective.

A change theme that is resonating strongly is digitalisation, by *making enhanced use of data and IT tools* in the statement of assurance work under Goal 1 and *to take advantage of new IT tools* in all audit work as expressed under the heading 'Using technology in audit.' The same section also shows that the digital agenda does not stop at the ECA's own work but that the ECA *will promote the development and deployment of digital practices in the management and control of EU policies and programmes*. Finally, the ECA signals that it intends to lead by example in efficiency by proposing to *realise additional productivity gains in our performance audit practice* (Goal 2), *to increase efficiency of resources used for our assurance work* (Goal 3) and *achieve productivity gains in our work* (in the final section 'Our own accountability').

In a nutshell: continuity, but some noteworthy new orientations

To conclude, this short analysis shows that the 2021-2025 ECA strategy represents a continuation of the general course of the ECA. However, when looking at differences between the previous and the new strategy, a number of nuances and new elements of emphasis emerge that give indications of how the organisation will evolve in the next five years. These include placing its audit work in the context of contributing to EU values - such as democracy and rule of law - and EU objectives - such as resilience and sustainability. A more proactive stance towards EU accountability gaps and auditing the EU COVID-19 crisis management and recovery efforts also plays an important role. Finally, the ECA signals that digitalisation of audit work, forward looking risk analysis and efficiency improvements in its work will be key objectives.

However, do not take my word for it. Take a look at the [2021-2025 ECA strategy](#) yourself!

EU institutional leaders reacting to the 2021-2025 strategy of the European Court of Auditors

By Gaston Moonen



Source: European Parliament

From left to right: European Council President Charles Michel, European Parliament President David Sassoli, and European Commission President Ursula von der Leyen

As it is the EU's independent external auditor, the ECA's strategy also matters to other EU institutions. We invited the presidents of the European Parliament, the European Council and the European Commission to give us their thoughts on the ECA's new 2021-2025 strategy adopted in early 2021. Below you will find the reactions of, respectively, European Parliament President Davide Sassoli, European Council President Charles Michel and European Commission President Ursula von der Leyen, preceded by an introduction from the ECA's own President, Klaus-Heiner Lehne.



ECA President Klaus-Heiner Lehne introduces the new ECA Strategy

Nothing obliges us here at the European Court of Auditors to commit ourselves to a strategy running several years into the future. No legal provision demands it, nor have we faced political calls to issue one. Nevertheless, I consider that the process of adopting our strategy, which was participative and involved all levels of our institution, and the guidance which it provides, are invaluable in our daily work. The fact that the strategy has

been adopted by the ECA's highest body, namely the College of Members, that we will report regularly on our progress in implementing it, and, ultimately, that we will ask our peers from other independent audit institutions to evaluate us, gives the strategy moral authority and enables our action to be more focused and concerted.

When examining the minutiae of the EU's finances during an audit, when deciding in what areas of EU activity to programme an audit, or when judging how to allocate the limited resources we have to reach out to our stakeholders, a long-term strategy acts as our compass. It might not give us the detailed map for our journey as the EU's

supreme audit institution – a map, which we are constantly drawing and redrawing based on the latest information available to us – but it gives us the overall direction of travel. It ensures that our decisions are not only guided by rules or expediency, but also by values and an overall vision. Who are we? Why do we do what we do? How do we do it? Who do we do it for?

As an audit institution, we often come up against the following conundrum: on the one hand, we cannot by definition examine something which has not yet happened. On the other hand, however, we can only have an impact if our findings are relevant to the challenges anticipated by legislatures and executives. That is why we have drawn inspiration for our strategy's thematic structure from the foresight capacity that we have built up in-house, and that is also why we are gearing up to use more digital technology in audit.

Mindful of all the challenges we have identified, we are determined to make our contribution to a more resilient, sustainable and fair European Union. In the midst of a global pandemic, the EU has shown itself to be capable of vigorous and decisive action, launching innovative large-scale initiatives that affirm its resilience and vitality. The 2021-2027 MFF and Next Generation EU (which we will be auditing) are concrete examples of this vitality.

I sincerely hope that you enjoy reading this edition of the ECA Journal and wish to thank the numerous contributors for sharing their insights on topics related to strategies in general and the ECA's strategy in particular.

Source: European Commission



DAVID SASSOLI, President of the European Parliament

In its mission to improve accountability, transparency and financial management at EU level, the ECA has evolved greatly in the last decade. The constant ambition of the Court to improve its audit approach and to deliver better, more relevant and actionable results has been translated also in its new 2021-2025 strategy.

In view of the challenges brought by the pandemic as well as those that the future will certainly bring, the European citizens need a resilient, sustainable and fair European Union. To this end, the work of the Court will be very important, in particular because its new strategy is tailored to cover also the management of the 'Next Generation EU' initiative' and because it will increasingly rely on the digitalisation of the audit work.

I equally welcome that the respect for EU values and the rule of law, the assessment of the performance of high-level programmes, as well as the fight against fraud to the EU budget will be high on the Court's agenda in the next 5 years. In this respect, the Budgetary Control Committee of the European Parliament will continue to be a reliable and trusted partner of the Court.

The European Parliament is the EU's house of democracy. Democracy and peace are long-lasting when there is trust. But trust can only be secured through more accountability, more transparency and sound management of the EU's finances. The ECA is a key actor in this endeavour and I am pleased to see that the Court has a clear roadmap for the very important years to come.

Source: European Commission



CHARLES MICHEL, President of the European Council

The multiannual financial framework for 2021-2027 will stand as a milestone in the history of the EU. Firstly because it is complemented by the Next Generation EU (NGEU) recovery fund, which is exceptional both for its scale, amounting to some €750 billion, and because it will be financed by EU borrowing. Secondly because this MFF has been designed to be the instrument of the twin green and digital transitions towards a new paradigm of economic and social development for the European model.

This increase in the scope of Europe's ambitions of solidarity, in response to the huge expectations of its citizens, must go hand in hand with an increase in accountability and transparency. It is no less than the legitimacy of EU action that is at stake – the fundamental values of our democracy and of our rule of law. That is why we have supplemented this MFF with new legislation designed to protect the EU budget and NGEU against fraud and irregularities.

In its July 2020 conclusions, the European Council specifically stated that 'combatting fraud requires a strong involvement of the European Court of Auditors', as well as the other controlling and law enforcing bodies. It is therefore important to see that the Court of Auditors has put these enhanced objectives at the heart of its strategy for the next five years.

Source: European Commission



URSULA VAN DER LEYEN, President of the European Commission

The greater the power, the greater the responsibility. Transparency and accountability lie at the core of our European democracy. It is a matter of trust in our institutions. Citizens must know that their money is spent effectively - to deliver on their needs and aspirations.

This is what makes the work of the European Court of Auditors and your new strategy so important. Last year, the European Union agreed on the new multiannual financial

framework and an unprecedented recovery plan, Next Generation EU. Taken together, they are worth 1.8 trillion euros: this is the most ambitious package ever financed through the EU budget.

With this, we have an extraordinary opportunity to drive Europe's recovery. With Next Generation EU we can turn the page on this devastating pandemic and build a greener, more digital and fairer economy for future generations.

To succeed, every euro must be well spent and deliver results. This is our common objective.

Your new strategy sets out how the European Court of Auditors will contribute to this mission.

I see many important themes of shared interest: strengthening accountability and transparency, protecting the EU budget, and moving towards more digital methods.

As in the past, we look forward to working closely with you in a spirit of cooperation and mutual trust. In recent years, the Court's audits have contributed to improving our Union's financial management. Your experience and expertise can help us make the EU budget work even better.

Our roles are different but our goals in the end are the same. We all want to make a positive contribution to the lives of all Europeans at this most challenging time. And, ultimately, to build an even more powerful and stronger Union.

The ECA 2021-25 Strategy – In times of rapid changes, the strategy sets out ambitious goals for the upcoming five years

Interview with Annemie Turtelboom, ECA Member

By Derek Meijers and Gaston Moonen



Annemie Turtelboom

Quo vadis? Clearly, this question engaged the attention of a number of people within the ECA when the decision was taken, in 2019, to create the Strategy and Foresight Advisory Panel (SFAP), whose main task was to prepare and propose a new long-term strategy for the ECA. ECA Member Annemie Turtelboom is one of the five members of this panel. But we also interviewed her in her capacity as Chair of the new working group preparing the ECA for the Conference on the Future of Europe, opening up an even wider range of strategic issues to think about.

Walk the talk – from design to implementation

When we interviewed Annemie Turtelboom, ECA Member, the new ECA 2021-25 Strategy had just been presented to the ECA's staff in a virtual meeting with ECA President Klaus-Heiner Lehne and the members of the ECA's Strategy and Foresight Advisory Panel (SFAP). Annemie Turtelboom was one of the five members of this Panel, besides ECA Members João Figueiredo (Chair), Ladislav Balko, Mihails Kozlovs and Juhan Parts.

Regarding the new ECA strategy, she thinks that the main challenges are yet to come. 'You can have a very smart looking strategy, with great ideas, but if the implementation is weak, even a 'perfect' strategy will produce only limited results. On the other hand, if some parts of the strategy could have been more ambitious, but their implementation is actually better, you might get somewhere. Strategy design and strategy implementation go hand in hand, you need both!'

Annemie Turtelboom explains that the implementation side is another reason why the SFAP put a lot of effort into creating a very inclusive process for the strategy. 'To stimulate support and ensure it really is implemented by the organisation. It is meant to be a very participative process and I think we should keep it that way, during implementation too, with input from all staff levels and from stakeholders. It might take a bit more time but it will create more ownership by the whole organisation. What you lose in time, you will gain at the end of the process.'

The ECA adopted its strategy slightly later than planned. Annemie Turtelboom explains that this was related to this participative approach and the many interesting contributions received from the actors involved in the development of the strategy and the various preferences that were put forward. While the gathering of diverse input is undoubtedly a strength of the participative approach, the processing of this input naturally takes more time. 'One of the items discussed, for example, was the length of the strategy and the level of information we wanted to provide in this high level document. In the end, the content of the strategy document became more concise, but rather similar in its essence. It is interesting to point out here that you can find examples on both sides of the spectrum: audit institutions which have extremely detailed strategies and others that have just one page.'



Comment from Ladislav Balko, ECA Member and member of the SFAP, regarding the new ECA Strategy

The innovative process that the ECA set up to prepare a new strategy has been an extremely enriching experience, and ultimately led to the adoption of a strategy which I consider excellent in all respects. For the future, the ECA may wish to consider whether a lighter and more streamlined process could lead to similar excellent results in a more straightforward way, producing efficiency gains.

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... you can find examples on both sides of the spectrum: audit institutions which have extremely detailed strategies and others that have just one page.

She can understand both approaches. 'On the one hand, a longer strategy document allows for clear specifications and thereby can contribute to a better common understanding of the aims to be reached. On the other hand, a shorter document can also contain clear goals, but in addition allow for more flexibility as to how to achieve these goals. Given the times of rapid changes we are facing – and to which we constantly need to adapt – this is therefore more suitable to our current situation. After all, there are €1800 billion on the table for the new MFF and the NGEU. The latter will make €750 billion available to support the sectors and regions most affected by COVID-19, mainly through the Recovery and Resilience Facility, providing over €670 billion in loans and grants to Member States. However, what will happen with all these national recovery and resilience fund plans the Member States have to draft in the framework of the Next Generation EU instrument? What kind of audits will be needed?'

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... there is something to be said at this stage for going for a shorter document.

She observes that while the ECA expected to go more into performance audit, it also had to audit the pandemic through a number of opinions and reviews. 'I think there is something to be said at this stage for going for a shorter document. And through the participative process we managed to arrive at a strategy document which, actually everybody can support, but which nevertheless contains clear views on what to do.'

An inclusive yet versatile strategy

Regarding its content, she points to the wide variety of topics the ECA will audit. 'We take into account the Next Generation EU instrument, the new multiannual financial framework, sustainability, but also issues regarding fraud.' Annemie Turtelboom underlines that ECA auditors are not fraud investigators. 'Nonetheless, we consider the possibility of fraud - based on data from various sources - when planning our audit work and also follow up on this risk during our audits. As an example, in 2019 we reported to OLAF 9 instances of suspected fraud found during our audits.' In her view, the ECA has demonstrated in 2020 that it is also a resilient organisation. 'As public auditors, we were able to continue doing audit work in times of COVID-19 confinement measures, with physical audits being replaced by virtual ones.'

Nevertheless, she hopes that 2021 will make it easier to audit and to meet each other and people externally. 'I really hope that from September 2021 onwards, after the vaccinations, we will have more boots on the ground, that we can go on the spot and have more physical

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I really hope that from September 2021 onwards, after the vaccinations, we will have more boots on the ground...

meetings. Because in the end, an inclusive process via Teams or Zoom, or whatever virtual tool used, has its limitations. And for us as Members, presenting a report or review in the European Parliament in person gives it a different dynamic.'

Values as impetus for strategic outlook

The confinement restrictions also made strategy development more challenging. 'It limited the communication around the process, when discussing the concepts of strategy, vision and mission, etc. Because these discussions are not only something technical, they are also about a common feeling, about brainstorming, about putting things on the table, even literally. This I missed from time to time. But we had to work remotely for obvious reasons.' She is therefore glad that some topics she was particularly keen on discussing – values, mission and vision – were explored well before the outbreak of the pandemic. 'Back then we had several meetings in my office with Members and staff members on these topics. During the rest of the process, those initial meetings remained an important source of inspiration for me. Kick-starting our discussions by a comparative analysis with other supreme audit institutions turned out to be a very helpful exercise.'

The ECA Member points to a value she considers particularly relevant for an audit institution. 'Because we are asking for transparency from the European Commission, and from our other auditees, we ourselves need to act in a transparent way. In total, we identify five values in the strategy which I think are very helpful, the other four being professionalism, objectivity, integrity and independence. I am very happy that these values are included, as they are indispensable, and certainly nowadays in a world where democracy is sometimes under siege. Having an independent external audit institution is an essential part of a liberal democracy.'

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Having an independent external audit institution is an essential part of a liberal democracy.

She also points out that the ECA found it important to recall wider values in the vision section, talking of a ... *European Union, which upholds the values on which it is based.* 'This relates to wider issues, such as democracy and the rule of law. Why do we audit certain topics? Not only because our stakeholders are interested in them and the Treaty requires us to do so. For the European Commission, respect for the rule of law for example is essential. It guarantees an impartial and effective application of EU law, a proper functioning of the internal market, and a respectful investment environment. These priorities of the Commission are also priorities for us. We do not only "follow the EU money," but are also looking out for what matters to the citizens.'

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These priorities of the Commission are also priorities for us. We do not only "follow the EU money," but are also looking out for what matters to the citizens.

Regarding opinions, Annemie Turtelboom is not surprised that the ECA has issued an increasing number of them. She identifies two reasons for that. 'Firstly, the Treaty requires the ECA to be consulted when a new measure taken by the Commission has a budgetary implication. In times of COVID, the EU took many measures to support the economy and increase its resilience. So, logically, the more financial measures taken, the more ECA opinions.'

As a second reason she observes a willingness, if not a perceived need in the ECA, to be more pro-active with its assessments. 'Providing such opinions is a competence I really like at the ECA and something not many supreme audit institutions have. We are not only able to follow them up, but can also reflect and react upon proposals beforehand. Before a decision is made by the Commission, Parliament, Council, etc.' Annemie Turtelboom believes that this competence in issuing opinions enables the ECA to find a good balance between downstream analysis – through the ECA's annual report and, its special reports – and analysis at the early stages in the decision-making process.

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Providing (...) opinions is a competence I really like at the ECA (...) We are not only able to follow them up, but can also reflect and react upon proposals beforehand.

Annemie Turtelboom underlines also the role of foresight for the ECA. 'Since the work of the ECA's Future Foresight Task Force in 2018-19, under the leadership of Juhan Parts, we are much more aware of what foresight actually is. On the one hand, a strategy is for the

next 5 years. Foresight on the other hand, is scanning the horizon for changes, analysing trends and developing scenarios and this on a permanent basis. Therefore, foresight will always be a basis for strategic planning and decision-making.'

She observes that foresight challenges the internal organisation, but also enables the ECA to respond quickly to future challenges. 'Foresight is not about predicting the future, but about improving decision-making, implementation and the ability to cope with future challenges. For example, our review on the EU's response to China's state driven policy. It was the first time the ECA published a review in this field. Quite logical, as the geopolitical relations between the EU and China became more a matter of importance for the EU. The same goes for the rule of law. Linking the EU budget to the rule of law is touching upon the basic values of the EU and is becoming increasingly important nowadays. By doing so, we are acting upon our role as advocates of citizens' concerns and bearing the values on which a more resilient and sustainable EU is based, as described in our new strategy.'

For Annemie Turtelboom these values are also an important aspect of continuity, a link to the previous ECA strategy, one of whose key objectives was contributing to citizens' trust. 'We are not writing our reports for the pleasure of writing reports. We are writing them to enhance citizens' trust. As we explicitly say in the mission section of our current strategy.' But she believes writing reports and reviews does not reflect the whole impact of the ECA. 'What we often see during our audits, is that the Commission or other auditees have already taken measures to address the possible implications of our actions.' She calls this the implicit force of ECA's work, as impact is often achieved before the reports are even published. 'And I think this is good. We are there not to blame people, but to trigger positive impact and avoid errors.'

For her this effect is one of the elements of what she calls the 'ecosystem of the ECA.' 'It is not only the report itself that counts, but also the effect that you have with your work "behind the scenes," preventing problems, while addressing in reports those that still surface . She recognises this effect from her work as minister in the Belgian government. 'To avoid a lot of questions in parliament, we would first work to avoid possible remarks from the Rekenhof, the Belgian supreme audit institution.'

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It is not only the report itself that counts, but also the effect that you have with your work "behind the scenes," preventing problems, while addressing in reports those that still surface .

Speaking of other audit institutions, she refers to another element the Panel was keen to put in the vision section of the strategy – being at the forefront of the public audit profession. 'Due to our unique position, we have an excellent view of what is going on, not only at the European level, but also at the level of the Member States. This makes other audit institutions more interested to know what the ECA is doing. They are tracking the ECALab, how we dealt with the pandemic in our reports, what we do regarding performance issues, etc. I was presenting ECA findings in a national parliament and they were very interested to hear that we wrote seven opinions and two reviews on COVID-19 related topics.'

Annemie Turtelboom believes the ECA should strive to be among the best in public audit, not just for ambition's sake, but simply to optimise our contribution to a more resilient and sustainable Union. 'A Union based on values. If you look at the current challenges we are facing in the world, we are going back to basics more and more. By aligning our annual work programs to the multi-annual strategy, we will ensure that good crosscutting topics, such as sustainability, but also EU values will be audited.'

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If you look at the current challenges we are facing in the world, we are going back to basics more and more.

Goals set but ways to them requires flexibility

While it is inclusive, if not holistic on values, mission and vision, Annemie Turtelboom believes the new strategy is specific enough when it comes to the areas the ECA wants to focus on. 'Within the three goals, we identify very concrete and ambitious objectives, with, for example in Goal 2, four strategic areas, on which we will focus our performance audits.' She points out that the ECA is keen to deliver reports on these topics in the upcoming five years. 'Hence, the focus is now on the implementation of the strategy.'



Comment from Mihails Kozlovs, ECA Member and member of the SFAP, regarding the new ECA strategy

The ECA's main task is to keep the various EU institutions and bodies responsible for managing EU funds and implementing EU policies accountable. This task is at

the core of the strategy for 2021.-2025. Yet, there is one key element that deserves great emphasis – the strategy needs a proper implementation framework and strong ownership at all levels of the ECA, so that one can clearly trace any activity by the College and its departments to the strategic goals. The ECA and its College collectively and every Member individually have to own the strategy.

With the adoption of the strategy, the mandate of the SFAP will also change. 'It will be more about providing foresight information to the College and other management levels in the ECA. We may also seek external advice in the Panel's work. Furthermore, our role will be to provide advice on a comprehensive risk analysis using trendwatch and other foresight methods and liaise with supreme audit institutions, international organisations and Member States' authorities in view of further developing the ECA's foresight practice.

For Annemie Turtelboom the ECA strategy is not set in stone. 'We will need the annual progress reports and

a mid-term review to see where we need to adapt.' She refers to a topic she mentioned earlier as a concrete example. 'Last September we published our [Review 3/2020](#) on the EU's response to China's state-driven strategy, I happened to be the rapporteur for that. I think that five years ago nobody in the ECA would have thought of producing a review on this issue, simply because it was not so important in the European Commission's strategy then.' She explains that it actually became more pertinent because of geopolitical tensions, with former US President Trump putting the topic more in the centre of the debate. 'So it became more important for the Commission, and also more important for us as the external auditor.' She gives another example relating to migration and concludes: 'Talking about the strategy is in fact talking about all ecosystems.'

Such an approach also requires the flexibility to react and to adapt. Annemie Turtelboom thinks the ECA has proven it is capable of doing so. 'If you look at our Annual Work Programme for 2021, you will find that 25% of our reports are once again, COVID-19 related. I am now working on an audit on passenger rights in COVID times. We are working to finalise our special report before this summer. People want to read about passenger rights before they go on holiday this summer, so we are adapting to that.' She points out that flexibility is only one element: 'You also have your strategic goals, with the possibility of flexibility if needed.'

“*If you look at our Annual Work Programme for 2021, you will find that 25% of our reports are once again, COVID-19 related.*”

Enabling staff and management

Concerning the implementation of the strategy, Annemie Turtelboom also wants to draw on the lessons learnt from recent peer reviews, such as the [one regarding the previous strategy](#) (see also page 115) and on the [ECA's ethical framework](#). 'The latter for example found that staff members did not have enough knowledge about the content of our ethical obligations. This showed the need for more information. Our new strategy is not only related to our products, but also our horizontal services are affected. Therefore it is important that all parts of the organisation, for example HR, training and IT work plans, are working along the priorities set out by the strategy.'



Comment from Juhan Parts, ECA Member and member of the SFAP, regarding the new ECA Strategy

Agreement on the policy domains in focus is a good thing, and it is definitely a step forward as compared with the previous ECA strategy. I also hope that peer-reviewers will later find something in the document on which they can base their ex post assessment of the ECA's effectiveness.

Annemie Turtelboom sees digitalisation as an important aspect, helping the ECA in its foresight capacity. 'As ECA we are open and keen to use new techniques in auditing. Here we need to adapt to what the situation offers. Since we work post-factum for most of our audit publications, we are to some extent followers; therefore a balance between being ambitious but also realistic, is key.'

In her view, the strategy must be linked to the entire organisation, including the non-audit side. 'If you want to work on the Next Generation EU instrument, our auditors need to acquire the knowledge to audit it. Inviting experts, organising webinars – as we did for our China review, but also for our ongoing audit on 5G – is important.'

Next Generation EU is an example of an instrument explicitly mentioned in the new strategy as one to be audited. The strategy also mentions the ECA's ambition to provide country-specific information when adequate. For Annemie Turtelboom this is only logical and it is important that the ECA provides such information. 'The national recovery and resilience fund plans need to be delivered to the Commission by this month. These plans start from the Member State level, with Member State dynamics, because not every country is affected by the pandemic in the same way. This implies that you cannot avoid country-specific findings and therefore recommendations. Contrary to the current multiannual financial framework, the Recovery and Resilience Funds are very much a bottom-up process. The same applies to the four strategic areas mentioned in Goal 2 of our strategy – climate change, resilience, competitiveness, fiscal policy. On those issues, you need to be able to provide country-specific information.'

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... you cannot avoid country-specific findings and therefore recommendations.”

ECA contributing to the Conference on the Future of Europe

While the whole process for the Conference on the Future of Europe is not known yet, the ECA is keen to contribute, according to Annemie Turtelboom, who chairs the working group the ECA established on this issue. 'We expressed our wish to be an observer. Topics that might come up can relate to accountability and the ECA's audit mandate. Having said that, it is still early in the process and we first need to see the preparations for this conference, including the arrangements for the ECA's participation.'

She explains that the ECA's working group on this topic will focus on defining what the ECA can and should achieve throughout the conference. 'Over the course of the last years, we highlighted in several reports the need for an extension of our audit mandate or at least clearer Memoranda of Understanding. She gives the example of the ECB. 'We signed a Memorandum of Understanding with the ECB last year. Although we have limitations in our audit mandate with the ECB, we can work with them further, also based on the value of transparency, which we share. Mihails Kozlovs has recently been negotiating a new tripartite agreement with the European Investment Bank. In the end, you want to have a good inter-institutional relationship to be able to do your work, while respecting each other's roles.'

Another topic Annemie Turtelboom foresees as a possible item for discussion in preparation for the Conference on the Future of Europe, relates to cooperation with national and regional audit institutions. 'A lot of funds from the Recovery and Resilience Facility will go to the regions, and in several Member States these regions have considerable power – think about Germany, Spain or Belgium. This can be a good moment for us to think about how we are going to work with regional audit bodies.'

For the citizens and by the citizens

Looking back at previous discussions regarding the future of Europe, such as those aiming at adopting an EU constitution, Annemie Turtelboom thinks that citizens' involvement will be essential to manage expectations and prevent disappointment regarding the citizens' perspective on the EU. 'Our [special report 14/2019](#), assessing the Commission's public consultations relating to EU law making, highlighted the need for better feedback on the contributions received from citizens. The report also emphasized the fact that the more citizens are involved, the better it is.'

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... the more citizens are involved, the better it is.”

She believes that involving citizens in the process, whether it is for the Conference on the Future of Europe, audits, or crisis management – as she had to do in her previous work, dealing for example with a terrorist attack on the Jewish museum in Brussels – is key to building trust. ‘There are many possibilities at this moment to reach out to citizens. We just need to use them.’ She thinks this process also applies to audit. ‘Two years ago, I visited the supreme audit institution in Austria. They are developing audit ideas based on contributions received from citizens. When I asked whether this was perhaps more difficult to work with, they replied: “Actually no. Because many of the ideas from citizens actually match ideas we already had ourselves.”’ Annemie Turtelboom concludes that opening the doors to EU citizens can only help. ‘The more we do it, the more transparent and open-minded we are towards citizens, the more trust we will generate in the European project.’

From strategy to audit – making our work as future proof as possible

Juhan Parts, ECA Member



How can a public audit institution ensure that its audit work, when published, matters and has a high impact? In his previous professional life, ECA Member Juhan Parts, was Prime Minister, Member of Parliament and Auditor General. His experience is that having an impact starts with adopting a strategy in which vision and foresight play an essential role in making the right choices. As a former chair of the ECA's 'Future Foresight Task Force,' (see the ECA Journal on Foresight) and more recently as a member of the ECA's Strategy and Foresight Advisory Panel, he has actively contributed to preparing the new ECA 2021-2025 Strategy. In this article he explains why the strategic orientation of an SAI like the ECA matters so much in terms of having an impact on society.

Strategy: a matter of choices

Strategic planning primarily concerns two issues – resources and accountability. If an organisation had unlimited amounts of resources, it could do whatever it wanted. As this is not the case in real life, every diligent organisation needs a strategy. It needs to figure out where to put its resources to maximize its added value. Accountability is the other need that makes proper strategic planning inevitable. Without strategic goals there is no meaningful reporting and no accountability.

The European Union has no lack of different funds, policies and actions. The ECA, with slightly over 900 staff members, has never been, and will never be able to cover all of them in terms of performance auditing. This means that we have always made choices and will continue to do so. Hence, the question is not *whether* we need to make strategic choices, but *how* we make them.

From 'picking mushrooms' to systematic goal setting

Our 2018-2020 Strategy was short and rather general and provided relatively little input to our work programming. This means that until now many strategic choices have been made on a year-by-year basis rather than being based on a consistent set of strategic priorities. To a large degree, our work programme is developed through a bottom-up procedure, which starts with our auditors providing ideas and ends with a selection exercise at the level of the College. This may result in an interesting portfolio of audits, each of which taken separately seems useful, but taken together lacks some core

requirements to be called a forward-looking programme. We are used to asking what a good audit is, but we hardly ever ask how several good audits together can lead to greater impact.

In other words, we must make a difference between the impact of a single audit and the impact of our performance audit work as a whole. One without the other is not enough to make the performance of a supreme audit institution effective and efficient.

At our 2017 ECA annual seminar, we were already discussing shortcomings in the planning procedure. We then concluded that the ECA needed to reflect on establishing a strategic thinking structure and procedure to make the ECA more future proof. This led to setting up the Foresight Task Force in 2018 as an *ad hoc* working group. A year later, its successor, of a more permanent nature, was created: the Strategy and Foresight Advisory Panel (SFAP), which was supported by a dedicated team in the ECA's Directorate of the Presidency. Leaving aside the details of the work done by the SFAP, let me outline their conclusions on strategic planning for performance auditing. The following four keywords form the basis for good strategic planning:

- Focusing;
- Future foresight;
- Goal-setting;
- Agreement on resources.

Focusing

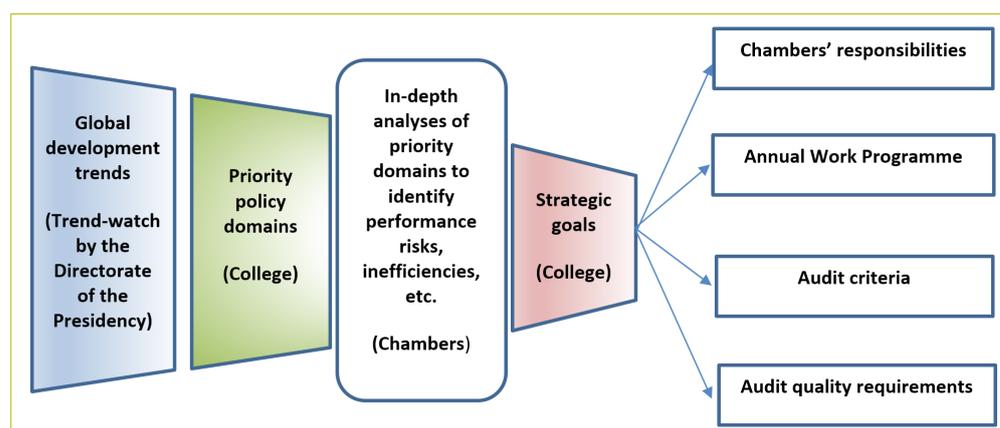
Instead of seeking to cover everything, a public audit institution should focus on a limited number of policy domains. The scope should be proportional to the resources available for performance auditing. For an institution like the ECA, four to five priority domains would be appropriate. Balancing objectives and resources is a prerequisite for effective capacity building, which is of utmost importance for performance auditing. Without expert level knowledge in a policy area, an audit institution will never be able to study actual problems emerging in real life and make substantial and relevant recommendations.

Focusing is not a goal in itself, but it is a way to increase impact. An audit institution can be considered effective and efficient only when it is capable of finding out the most important problems in the field and succeeds in focusing its (limited) resources on them. In order to achieve this, one should not only look into the past, but also figure out what could happen in the foreseeable future. This leads us to the next key term, which is future foresight.

Future foresight

The policy domains which should be prioritised should be based on the future foresight work. These domains should then be covered by a multi-annual approach. This means that strategic planning should not be a one-time exercise, but an ongoing process, which starts with trend analysis, goes through several phases of narrowing down and ends with the audit programme, where every angle of each priority domain is covered by an audit (see **Figure 1**). Insights gathered from audit work done and new trend analyses will feed into subsequent strategic planning.

Figure 1 – From trend-watch to annual work programme selection



Let me emphasize that future foresight is not a ‘nice to have,’ but an important tool and proven method of strategic risk analysis. Having our own foresight practice is not coping with or duplicating the work done by other players in the field, but going further and deeper with the trends which are relevant to the EU, identifying the elements most relevant to auditors. Foresight work is the initial step in the strategic planning process, to be followed by in-depth analyses of EU policies aimed at identifying the performance and financial risks.

Moreover, systematic work on future foresight not only leads to relevant topics, but it also brings change in organisational culture, making it open-minded and forward-looking. It also presents an opportunity to build up a global expert network, which the ECA needs to improve the quality of both its audits and its standing as a knowledge-based organisation.

A sceptical reader may now ask if this approach is free of problems. One may argue, for example, that by focusing on a limited number of policy domains we risk losing competence in others and will therefore not be prepared enough to react when something happens. As the Covid-19 pandemic has demonstrated, in a rapidly changing world we may easily underestimate some important trends. This is true and remains a risk. But an organisation without any priorities and no foresight system is even more vulnerable in this regard. Firstly, without focusing, an audit institution will remain an ‘amateur’ in all fields, and secondly, an organisation practising future foresight is capable of discovering problems at an earlier stage and reacting more rapidly to unexpected changes.

Goals

For each priority domain, the strategy needs to set specific strategic goals. It is not simply declaring that something is *the* priority, but describing what the audit institution wants to achieve in a certain period of time. Goals should be worded, at least, as outputs, but even better as outcomes or impact. Through such goals, the strategy becomes a living - and operational - document at all levels. In every subsequent procedure – elaboration of annual (or multi-annual) work programmes, determination of the scope of an audit task, making quality reviews, etc. – we have to ask how our choices correspond to the strategic goals. Clear and measurable goals also make our performance audit work measurable and ensure our accountability.

Agreement on resources

Performance auditing should not be treated as a secondary task, which can only be done to the extent that time is left over from assurance work. Instead, the strategy should fix the distribution of resources between assurance work and performance audit, and also, between the different priority domains.

Back to fundamentals

Performance audit was born from the need to balance the executive power. This need is even more visible in the EU, because in the EU, not all democratic mechanisms can work as effectively as at the smaller-scale national level. In the European Parliament, there is no clear government majority or opposition, or at least it does not function in the way it traditionally functions in most of our Member States. Another issue is that a European public sphere hardly exists outside the ‘Brussels bubble,’ meaning that the external pressure which forces public sector institutions to come out of their comfort zone and adjust to a changing environment is a lot weaker than in nation states.

The ECA’s core mission could be to strengthen the principles of ‘checks and balances’ and contribute to reducing the deficit of democratic control mechanisms in the EU – enhancing public scrutiny, based on objective data and independent analysis. This can only be done when the ECA is capable of addressing the right issues in an impactful way. In order to find both the *issues* and the *way*, we need a proper strategy.



Auditing the performance of EU finances at an aggregate level: lessons learnt from the 2020 pilot exercise

By Jan Gregor, ECA Member

Providing strong audit assurance on all types of EU finance is one of the three strategic goals the ECA has set itself in its 2021-2025 Strategy. ECA Member Jan Gregor is the reporting Member for the ECA's first annual report on the performance of the EU budget, which was published in November 2020. Below he provides some background information on this pilot, the approach chosen and main issues presented in the report. He also discusses the challenges ahead for auditing performance aspects of EU finances at an aggregate level.

Sound financial management - touching upon various principles...

Performance audit is an independent, objective and reliable examination of whether undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of sound financial management. These principles are effectiveness, efficiency and economy and therefore touch on concepts such as value for money, relevance, coherence and added value. The Treaty on the Functioning of the EU (TFEU) explicitly stipulates that the ECA is to examine whether the EU's financial management has been sound. Moreover, the EU's Financial Regulation specifies that the ECA's annual report must contain an assessment of the soundness of financial management.

...performance audit results reflected in various ECA reports

We have gained much experience in carrying out performance audits in the areas in which the EU is active, be it policy, regulations, legal instruments or spending funds via the EU budget. These audits typically focus on selected EU policy issues and we publish their results in special reports. The audits on the reliability of the EU's consolidated accounts and the legality and regularity of the underlying transactions are traditionally reported in our annual report.

In 2010, we further developed our reporting on performance by dedicating a chapter of our annual report to various aspects of performance. The chapter was named 'Getting results from the EU budget' and we have continued this practice since. The focus of this chapter changed from year to year but always contained observations on the European Commission's performance framework, a summary of the main conclusions of our special reports of that year and the results of the follow-up of recommendations made in the past.

From 2015 onwards, our annual report also included performance information in the sectoral chapters that cover individual Multiannual Financial Framework (MFF) Headings. This included the results of performance assessments of transactions that were selected for the testing of legality and regularity. These developments in the ECA's reporting were in line with the Commission's growing commitment to placing more emphasis on performance. An example of this is the Budget Focused on Results (BFOR) initiative, which the Commission launched in 2015 to gradually improve the performance framework for the EU budget.

Although we increased our focus on performance, the reporting on the performance of EU action was neither done on an annual basis, nor comprehensively (i.e. covering all areas of the EU budget). Moreover, there was no assessment of high-level reports on performance such as the [Annual Management and Performance Report \(AMPR\)](#) (see **Box 1**). As a result, the European Parliament and the Council were asking us to further develop our approach.

Box 1 - the Annual Management and Performance Report (AMPR)

The AMPR was first published in 2016 for the financial year 2015. It combines two former reports: the Evaluation Report and the Synthesis Report, which summarised the Annual Activity Reports (AARs) of the Commission's directorates-general for the preceding year. The AMPR is based on the Programme Statements of operational expenditure accompanying the draft general budgets of the EU, the AARs and other available performance information, such as evaluation studies and audit reports. Since 2019, the AMPR has included the Programmes' Performance Overview (PPO).

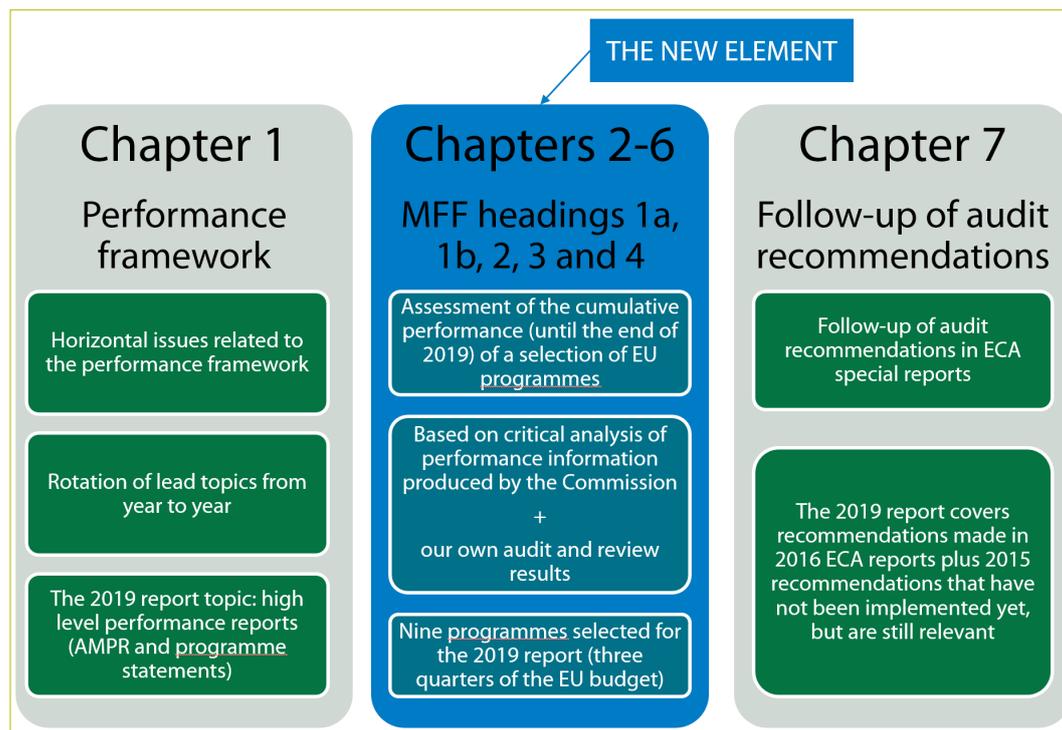
As set out in our strategy for the period 2018-2020, we therefore decided to produce a report on the performance of the EU budget, as a pilot exercise, for the period up to the financial year 2019. This report is part of the ECA's annual reporting and is therefore part of the documents examined under the discharge procedure in the European Parliament. The [report](#) was published in November 2020 (see **Box 2**).

Insight into the performance of each European policy

Our report on the performance of the EU budget comprises three aspects, one of which is new (see **Figure 1**). For the first time

we examine, at an aggregate level, whether the Commission's performance information convincingly shows that the financial management of EU spending programmes is sound. We carried out this analysis for a sample of nine of 58 EU spending programmes. Taken together, these nine programmes represent around three quarters of all payments made up to the end of 2019 against the 2014-2020 multiannual financial framework commitments.

Figure 1 – New element in the ECA report on the performance of the EU budget



The preparatory work involved examining the performance information available, such as indicators, evaluations and high-level performance reports. It also entailed assessing, to the extent possible, the quality of this information and the extent to which it is corroborated by the observations and conclusions of our audit work. This includes both performance audits leading to special reports and performance assessments of transactions that were selected for the testing of legality and regularity. This analysis enabled us to assess the performance information available and, on that basis, if the information allowed, to assess the performance itself. The latter was done with reference to the objectives (as defined in the relevant legislation) that the programmes aimed to achieve.



Box 2 - Report of the ECA on the performance of the EU budget – Status at the end of 2019

Mixed results while information quality should be further improved: the European Commission's reporting on how well the EU spending programmes perform shows mixed results. While the ECA welcomes the fact that the reporting keeps improving and is becoming more balanced, it also points to a number of problems: the quality of the Commission's performance assessments still varies across programmes, and setting robust and informative performance indicators remains a challenge. The ECA also recommends that the Commission should work with Member States to further ramp up data reliability in its reporting on budget performance.

The results varied from one MFF heading to another. In the area of cohesion for example, the performance data indicates that the programmes fall short of initial expectations. As for another flagship programme, the EFSI fund – the European Fund for Strategic Investment, also called the 'Juncker plan' - the indicators show it is on track to mobilise €500 billion of investment. Here, we note that the market could nevertheless have accommodated a share of those investments. Furthermore, we warn of overstated multiplier calculations, which may contribute to an overly positive assessment.

For programmes such as Horizon 2020 and important programmes under Global Europe, our audit work revealed that there is not enough information for a robust performance assessment. There are nevertheless indications that various aspects of these programmes are performing well. For natural resources, the Commission's reporting on the performance of the Common Agricultural Policy (CAP) presents an overly positive narrative and is not focusing on results. A key weakness is that the performance indicators for the 2014-2020 period are not based on a detailed intervention logic for providing CAP financial support.

In addition, the report includes the assessment of a selected aspect of the Commission's performance framework. This used to be presented in our annual report. Traditionally, the approach is to cover a different aspect every year. This year's report covers the Commission's key performance reports, including the AMPR. Because the Commission publishes the AMPR at a later stage than its reporting on financial matters, this pilot allowed us, for the first time, to provide a comprehensive report on the AMPR. We conclude that the Commission's reporting on the performance of EU spending programmes through high-level reports, such as the AMPR, continues to improve and is becoming more balanced. However, the Commission does not fully verify or guarantee the reliability of performance information but takes steps in specific policy areas to mitigate the related risks. The quality of some performance indicators also remains a challenge, despite recent progress.

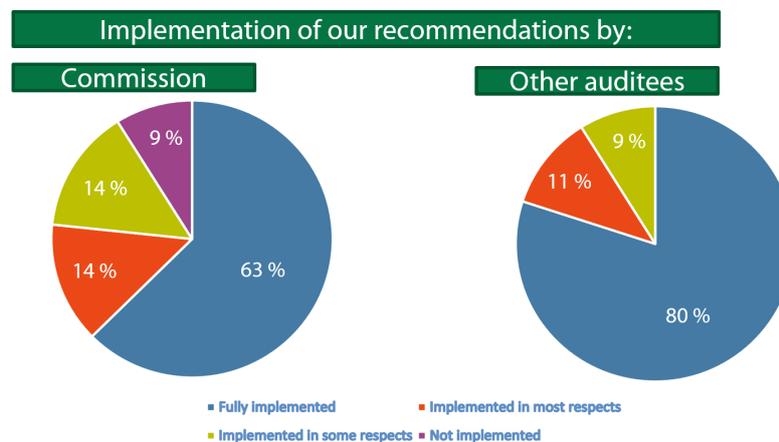
Finally, the report includes a follow-up of our previous recommendations (see **Box 3**).

An important feature during the preparation of this report was our close cooperation with the Commission, in particular with its Directorate-General for Budget and its Secretariat-General. There were numerous exchanges, at various levels, on the methodology and the actual content of the report. The Commission's efforts in this context were substantial and very constructive, demonstrating their commitment to lift performance to a higher level.

Box 3 - Follow-up of ECA recommendations

The follow-up of audit recommendations made by the ECA in the past is part of the audit cycle. We then classify recommendations as 'implemented fully,' 'in most respects,' 'in some respects' or 'not at all.' The scope and reporting of the ECA's follow-up of performance recommendations made in special reports has developed over time, reflecting the ECA's goal of increasing the impact of its recommendations on improving EU action. The principle is now to follow up not a sample but all relevant recommendations that were addressed to the Commission three years earlier.

In the 2019 report, the ECA concluded that most of the recommendations of our 2016 performance audits had been implemented. The rate of implementation by the Commission was lower than that of auditees other than the Commission. There was scope for further progress with regard to the recommendations that had not been implemented and those which had not been fully implemented.



Assessing performance at aggregate level implies new complexities

The pilot exercise has shown that developing recurrent performance auditing is not without its challenges. Examining performance at an aggregate level is complex because of the high number of spending programmes and the multi-dimensional characteristics of performance. Another element of complexity is the considerable time lag between the spending during the programming period and the actual materialisation of results, which mainly occurs after the end of the programming period. In fact, most of the results of the spending relating to a programming period only occur in the subsequent period.

Furthermore, assessing performance on an annual basis is demanding. The performance of policies is inherently something that can only be measured over longer periods. There is also a risk that annual reports become repetitive. As changes in performance are slow, annual performance information should therefore be seen as a moving insight rather than a picture of performance in that particular year. The risk of repetition can nevertheless be addressed, for instance by focusing on spending programmes on a rotational basis.

Second report on the performance of the EU budget on its way

The pilot exercise will continue, assessing performance up to the end of the financial year 2020. We will again assess whether the Commission's performance information convincingly shows that the financial management of EU spending programmes is sound. We are carrying out this analysis for a sample of five EU spending programmes that were not assessed last year. We have selected one spending programme for each 2014-2020 MFF heading.

As for previous years, the report will include an assessment of a selected aspect of the Commission's performance framework. This year, we are focusing our work on the key aspect of lesson learnt. We will analyse whether lessons learnt from evaluations and audits on the current and previous editions of EU spending programmes have been used to improve the design of the next generation of these programmes for the 2021-

2027 period. As for last year, the third part of the report will present the work we are carrying out in relation to the follow-up of our previous recommendations issued in our past special reports.

In parallel, since the end of 2020, we have started to evaluate the pilot internally, and externally with our main stakeholders. After a first wave of internal consultations, the process is continuing with consultation, through meetings and written contributions, of the European Parliament, the Council, and of course of our auditee, the European Commission. This feedback will help us formulate proposals for the future concept of this report and ensure that it remains useful for our stakeholders. It has so far aroused keen interest amongst most of our stakeholder partners in further ECA work in this area on the aggregated level chosen – all the more reason why suggestions for changes and improvements will be most welcome, in addition to the ones we have received already.

Challenging times ahead, even more so for performance assessment

New types of EU instruments also present challenges for auditing the performance of EU expenditure. In July 2020, EU leaders agreed to establish a €750 billion EU Recovery Instrument, branded the Next Generation EU (NGEU). The Recovery and Resilience Facility (RRF) is the key component of this instrument. It will provide non-repayable support and loans in order to support public investments and reforms to accelerate the recovery of Member State economies from the shock of the COVID pandemic. Funds will be allocated based on national recovery and resilience plans. In the absence of specific overall objectives and as disbursements will not be linked to costs actually incurred but rather to the achievement of milestones and targets, auditing the performance of this new instrument will be challenging while being more relevant than ever as a condition for continued EU financing of resilience plans.

In our 2020-2025 Strategy, under strategic goals 2 and 3, we have identified both the performance and the compliance aspects of the NGEU as key challenges. There we indicate our commitment to enhancing our assessment of high-level performance issues, ranging from programme level to providing country-specific information, when adequate. There we underline our commitment to providing strong assurance, which needs to include assurance on whether EU funding made a difference...or not... or less than expected...or whether it is unclear, since reliable data is lacking. We also underline that we will continue to focus on improving our recommendations to increase their impact and on monitoring their follow-up, both at EU level and at the level of the Member States. This already points to a number of options on how to further develop our reports on the performance of the EU budget in the years to come.

There are also fundamental methodological challenges in auditing the performance of EU finances. The various terms used have different meanings to different stakeholders. One example is the term EU added value, as also discussed in the last edition of the ECA Journal. In my view, the concept of sound financial management comprises aspects such as coherence, relevance and EU added value. Ideally speaking, management reporting on programme realisation and impact provides information on all three of them. Such reporting can then be assessed by external auditors like us.

Externally, our report aims to give EU citizens and institutional stakeholders more information about the performance of the EU budget at an aggregate level. Our report also promotes improvements in performance management, in a spirit of constructive cooperation between the auditor and the auditee, because our role is to help the EU better achieve its EU policy objectives while saving money where possible. Internally, the systematic examination of the performance information available within the Commission can help us identify existing gaps and in selecting new relevant topics for future audits.

Against this background, and despite the numerous challenges, I believe that the benefits of this pilot exercise clearly outweigh the effort and the cost of producing a recurrent report on the performance of EU finances.



A strategy and organisation that engages people to deliver

Interview with Zac Koliás, Secretary-General of the ECA

By Gaston Moonen



Zac Koliás

The ECA's new Secretary-General, Zac Koliás, started in his new job on 1 January 2021. It just so happens that his mandate mostly coincides with the new ECA 2021-25 Strategy period. As head of administration, he is responsible for two key components that will matter in achieving the ECA's strategic goals: people and the resources needed to make progress in – for instance – the digitalisation of audit. What are the Secretary-General's views on the new ECA Strategy, which issues does he particularly want to excel on and...what does he expect from the ECA's staff to make it all happen?

The new ECA Strategy – a living document

Zac Koliás started as the ECA's Secretary-General on 1 January 2021, succeeding Eduardo Ruiz García (see page 79). Having worked for the ECA for over 25 years already, in functions ranging from auditor to head of cabinet to director, he knows the institution inside out. When asked about his first impressions after having worked in his new position for three months, he reacts with enthusiasm but also with some restraint. 'I am really happy to work with the people we have. Our staff is proving to be efficient and productive, even in this difficult remote working situation. But those conditions also mean quite a difference for starting in a new position. Due to the current COVID restrictions, the dynamics of the work have not developed yet as they might have done normally. It does not yet feel that different from before.' Zac finds it rather unfortunate that he cannot be in the office with all the people around, as he would like. 'I feel a bit distant, while I do not want to be. As for many others starting a new job at this time, my start has been affected by the COVID conditions.'

“ [regarding the COVID work conditions] I feel a bit distant, while I do not want to be.

Looking back, the new Secretary-General is very appreciative of how strategy development has evolved throughout the years. 'There has always been some form of multi-annual planning and strategic thinking in the house. However, over the years and strategic cycles the preparation of these multi-annual plans has become more thorough and more participative.' He recalls the first official strategy adopted was around 2008, followed by three other multiannual strategies, the last one being the current one for 2021-25. 'In every iteration, there was more analysis and more consultation, culminating for the 2021-2025 strategy, for instance, in the use of the foresight tool "trendwatch," six large thematic staff workshops and a staff survey.'

Zac explains that for the new strategy the ECA made a very conscious effort to come up with a document that faces the perceived gaps of how a strategy document is created. Zac: 'In the past we had a group of people who put together a document, with some internal and external input, the College reviewed and adopted it. Then somehow, the document was there without, however, much reference being made to it in day-to-day work. So we started a process where, regardless of the length of the document as such, there was a lot of reflection.' He believes this reflection itself will not be lost. 'The reflection will stay, internal analysis is what we need and can do. For example, we debated to a great extent about what the values and vision of the ECA should be. This will help us now as we implement the strategy, as we put together the annual work programmes. The strategy will be more of a living document, used every time during the different phases of implementation.'

He sees a correlation between the character of the ECA's strategy document and its current length. 'At the end of the day there was debate as to how extensive the document should be. In discussions, you can get bogged down on specific words and how to describe those future aspirations.' He explains that the College decided not to do so, to be in a position to strive for certain areas, for certain objectives, without having a predefined blueprint. 'Overall, an extensive reflection took place and the debate itself was on the essentials. In the end there was no fundamental disagreement about the direction the ECA should take.'

When asked what he considers to be key elements to make a strategy future proof for a public audit institution, Zac points to three core issues. 'First of all, ownership at the executive level, as the commitment of its leadership is essential for any organisation to create an open and innovative environment in which the necessary steps can be proposed and taken to work towards achieving strategic goals.'

As the second issue, he identifies that strategies must have a clear focus and be forward-looking, based on thorough foresight work, such as analyses of the institutional environment, current affairs, trends and drivers and stakeholder priorities. 'At the same time, these strategies must remain flexible enough for an organisation to react promptly to unforeseen future events.' He refers to the COVID restrictions as an example. 'We had to adapt rapidly to new situations and needs, but we upheld the principle of business continuity with measures such as working from home. Remote connections were implemented at short notice, allowing staff to work together and stay in contact, something of great importance during such unprecedented times.' He underlines that while everyone's health comes first, ensuring a stable and safe working environment is an integral part of the staff's well-being. 'These actions were not planned in any strategy but we had to implement them to ensure that we remained a smoothly functioning and effective institution, producing the output needed by our stakeholders.'

As a third core issue, he refers to the ECA's staff. 'For any strategy to be future proof, an organisation must focus on its most important assets: its staff and their development. Because no matter how well defined a strategy is, or how aware you are about possible future risks, events, challenges and opportunities, if you do not prepare your staff to deal with those, you will be unable to react adequately.'

“ ... no matter how well defined a strategy is, or how aware you are about possible future risks, events, challenges and opportunities, if you do not prepare your staff to deal with those, you will be unable to react adequately.

Translating the strategy into staff commitment

When speaking about staff, he sees the participation of the persons who are concerned as a big plus for the last strategy development process. 'The whole preparatory process has actually made the embedding of the strategy adopted a lot easier than it was in the past. 'Such a process helps staff to start seeing their role in how they can contribute, improving how the institution functions.' He identifies a few instruments to stimulate this engagement. 'The plan is to have workshops with staff, per chamber, per directorate, organised as a general rule with the help of external consultants. Through these sessions we will try to explain and get feedback from staff on what the strategy will mean for them.' He points out that the restrictions caused by the pandemic may slow things down, but that the plan and the budget is there. Another action he is planning is to

make clear links between the strategy document and the annual cycle. 'I can imagine we will reflect on the document regularly, bring it up to date if needed, on a rolling basis. This will ensure that staff in specific areas will be able to see how, through the annual work programme, they will be able to contribute to the implementation of the strategy, with adjustments where considered appropriate.'

When discussing what Zac, from his past experience in different roles, sees as the biggest challenge from a strategy point of view, he returns to the same point – staff involvement. 'There is a risk of a disconnection between high-level goals in the strategy and the day-to-day work of individual staff members. Unless we manage to bridge these two, staff members might not understand their role in the strategy or why their work is a vital catalyst in achieving the strategic goals.' In addition, he thinks it is important that staff see the benefits for them of implementing the strategy. 'They also need to see these benefits, which will help them commit to the strategy and its implementation.'

'Managing tensions' has been a key aspect of his work in his previous role as the director for human resources and finances, and Zac sees this as inevitable and inherent in the work of any organisation. 'As I mentioned earlier, there is a tension between high-level goals and day-to-day operations. There are long-term and short-term tensions because we have competing priorities: for example, we strive to be cost efficient as an institution while at the same time we try to provide more and better services to our stakeholders. Inevitably, there are also tensions top-down and bottom-up. As a director, I had to learn to navigate between all these different interests and priorities. Without understanding all the variables, and without reconciling them, it is not possible to find the right solutions. This was my biggest lesson.'



Without understanding all the variables, and without reconciling them, it is not possible to find the right solutions.

Enabler, facilitator, and inspirer

Looking ahead, Zac is sure that his new responsibilities will lead to more involvement in the implementation of the ECA's long-term strategy. 'When implementing the strategy, I will in particular focus on issues such as human resources management – think about recruitment, staff development and training; digitalisation - supporting the digital transformation of the institution and audit work in particular, such as IT audit, and facilitating remote working - knowledge management and multilingualism.' In this context, he underlines that all the services in the Secretariat-General are what are termed support services. 'This means that they support our audit process to produce high quality audit reports and other outputs. For me, this means that we will continue to work closely with the audit chambers to ensure they have the right people, skills, tools, etc. to carry out the tasks they need to complete in order to achieve the strategic goals.'



... we will continue to work closely with the audit chambers to ensure they have the right people, skills, tools, etc. to carry out the tasks they need to complete in order to achieve the strategic goals.

However, the new Secretary-General does not only see his role as an enabler, but also as a facilitator and provider of inspiration to excel. 'As a leader you usually want to fulfil all these roles. Enabler, because a leader would set challenges and provide that little extra push that people sometimes need to reach the next level in their professional development. Facilitator, because a leader has sufficient influence to remove obstacles and resolve conflicts when they arise. Inspirer, because we all need a purpose to drive us.' He underlines that in the end all the three roles are about people. 'It is people whom we enable, facilitate or inspire. Any strategy is implemented by people, so all three roles will be essential.'

When discussing how to give concrete substance to these responsibilities, Zac brings up two aspects. 'We have the people and the tools. On the HR side one needs to realise we are limited by a number of things, some *given constraints*. Think about the staff regulations, the budget, etc.' At the same time, he sees quite some freedom to act. 'Think about new recruits and existing staff. As to the first, I think we can benefit from a new and more detailed analysis of what kind of people we really need.' In his view, this may range from data analysts to health experts.

He gives a specific example: 'Let's say we need to do a task in a specific domain. And we might need expertise in that specific domain. The question is how to get the expertise. Getting somebody into the organisation on a temporary contract is not that straightforward. It is not easy to find resources, which you can switch on and can switch off. My target is to try to create an expert database from which we can get this expertise, on top of what we have now, with experts in certain defined areas, somewhat similar to how they do it at the IMF.' In concrete terms, he is thinking of tapping into the list to get individuals with specific expertise to come to work for the ECA for a period of six to nine months. 'Short-term temporary support, very closely linked to the needs of an audit task.'

The Secretary-General sees a need to regularly think about and contemplate what making sure we have very good auditors at the ECA involves. 'Providing support, tools, and the training those persons need, to help in a life-long learning process. And how can we best provide resources for the short term needs of specific audit tasks in terms of the need for expertise? And the third thing is: how can we get staff to work for us in Luxembourg?' He observes that currently the fact that the ECA is based in Luxembourg creates problems in terms of recruitment. 'We need to compete with, for example, Brussels. And this means we need to be even more modern, invest more in people so that they stay with us, not necessarily for the salary but also for other things. How can we trigger that interest?'

Empowering people

One of the tools he sees is the empowerment of people at an early stage in their career. 'So we have heads of task at earlier grades in their career. These colleagues will progress in their career and being head of task will give them advantages for promotion.' However, he also sees a possible drawback of such an approach: 'For how many years will that person do a head of task job before saying: "I have had enough of that." For the medium and long term you need to be aware of the fatigue this may cause, and consequently the lack of motivation.' He explains that in the organisation there are only so many principal manager positions [the equivalent of a head of unit in other EU bodies] or senior administrator. 'And the competition for these positions is fierce.'

Zac indicates that, on top of this, the ECA needs to be aware of equal opportunities: 'To hit the targets we have set for gender balance in management positions. We will continue to ensure that competition selection boards include men and women. We will review vacancy notices to ensure that they attract a wide range of candidates in terms of gender, age, disability, etc. We will also update existing interview guidelines and prepare a guideline for overcoming unconscious bias during recruitment, and provide compulsory diversity and inclusion training to panel members. These are some steps to address the imbalances we have now.'



To hit the targets we have set for gender balance in management positions.

He also underlines that the ECA has made considerable progress in recent years on this topic. 'We offer more and more flexibility for staff to decide when they work, and how, with a focus on results rather than on inputs. We have more female heads of task and more female managers than ever before. And we now have a diversity and inclusion officer.' He points out that this is not just his opinion. 'Last year we ran a comprehensive project to analyse the achievements of the previous equal opportunities action plan. This included a staff survey, workshops, interviews, even an internal audit – all to get feedback on the ECA as an equal opportunities employer.' One of the conclusions was that staff perceive the ECA as a place where everyone has an equal chance to succeed in their career. 'There was overwhelming evidence that led to this conclusion. We are currently preparing the next action plan. I encourage all staff, also through the forum we have for that, the Equality Team, to contribute with suggestions.'

Overall, Zac is hopeful that the ECA can maintain and further develop its standing as an attractive employer for the next five years. He sees some important elements. 'An essential one is employee engagement. One of our priorities is to keep our staff engaged

and motivated throughout their career. We will approach every issue and decision from a human angle first and continue to put respect in the centre of our organisational culture. To have colleagues who are happy to work here, passionate about their jobs, and eager to produce high quality work.'

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We will approach every issue and decision from a human angle first and continue to put respect in the centre of our organisational culture.

In this context, he refers to another reputational aspect of the ECA, which relates to the values and mission he raised earlier. 'Professional integrity and the ethical values of both staff and management are the bedrock of the ECA. I will constantly strive, throughout my work, to see that these and other values are upheld. As the highest official in the administration, I should serve as a role model in promoting and ensuring ethical behaviour. And I will do so, both in my relations with ECA staff, the ECA College of Members, and other parties.'

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Professional integrity and the ethical values of both staff and management are the bedrock of the ECA.

In his opinion, another key element is fostering a learning culture at the ECA. 'This includes not only providing the necessary training courses and aligning the training offered with the ECA strategy. It also relates to what I mentioned before: lifelong learning, creating an environment where colleagues can safely learn from their experience and mistakes, and where lessons are shared by peers, and ideas and feedback are encouraged.' For Zac such an environment will promote a 'growth mindset,' not only at a personal but also at organisational level.

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... lifelong learning, creating an environment where colleagues can safely learn from their experience and mistakes...

In his view, a fourth element is the promotion of digital technology. 'We need to promote this in order to adapt to the new hybrid reality, not only in audit, but in the organisation as a whole, to modernise the way we work, the way we share knowledge, both internally and externally, and our workplace.'

Remaining close to operational reality

Even as a director in the Secretariat-General, Zac continued to be involved in audit activities and have hands-on experience by also taking up principal manager duties in an audit chamber to address new developments regarding financial economic governance (FEG). 'I very much appreciated doing these tasks besides my regular duties. It made me realise I was in the best of both worlds: administration and audit.' Smiling, he says: 'That is why I prolonged it a bit. But now it has become incompatible with my new role.'

He explains that remaining involved in audit also helped him to remain close to the operational reality of an auditor, and to the changes after the organisational reform in 2016. 'It allowed me to have these different perspectives, what it meant to be head of task, the new roles of principal manager, the new relationship with the reporting Member, etc. I will draw on the experience of all these roles in the past.'

In his role as Secretary-General, Zac sees other possibilities vis-à-vis the audit chambers regarding the implementation of the strategy. 'I have the possibility, and also a responsibility, to create an environment that fosters collaboration, open exchange and good internal communication. We can support harmonisation of the strategy's implementation by ensuring that all services are equipped with the right tools for their jobs. And support the development and dissemination of harmonised working methods through our professional training programme.'

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I have the possibility, and also a responsibility, to create an environment that fosters collaboration, open exchange and good internal communication.

Challenges, opportunities and pitfalls

With over 25 years of experience at the ECA, the new Secretary-General also has some ideas about the challenges, opportunities and pitfalls the job comes with. 'We touched upon the tensions that exist in every workplace, the ECA included. One of the challenges is to find solutions that cater for the needs and interests of every group. This means sometimes you have to cope with competing goals and priorities.' As an opportunity, he refers to working with a group of dedicated people. 'And sometimes, when working intensively on an audit or project, we forget that we need to balance our professional lives with our lives as individuals. As Secretary-General I have the *opportunity* to remind people of this.' More seriously, he signals the vast opportunities work at the ECA offers to instigate change in a large number of different domains. 'I hope to live up to what is expected of this important role.' Regarding pitfalls, he can imagine a few. 'Such as realising that you cannot control every detail at every level of our work. Or entrusting the wrong person with the wrong task. Or approve an idea, only to realise later that we are incapable of implementing it.'

Acting now as the head of the administration, and representing the ECA as such, towards other institutions, will be an experience he is looking forward to, each of them facing different but also similar challenges. 'At the end of the day, as an EU institution it will be important to have access to the EU architecture. I think that at the ECA we have achieved something. Perhaps not every EU citizens knows us. But the ones who do know us, know us as an honest, independent and thought-provoking institution.' He underlines that the challenge will be to maintain this position, but also to try to extend our reach. 'To reach wider audiences in debates on key EU issues. We need to be more responsible, as we were regarding COVID measures, following events and producing our assessments of them. Not only by reports or reviews, but also voicing to the external world our expert view based on our strong points.'

He underlines that the ECA has limited resources compared with some other institutions. 'Some have much more resources to employ consultants, evaluators, to produce not necessarily independent but competitive products. Of course, we are in a different market, since we provide assurance.' Nevertheless, Zac would like to think that for clear information in a given area, the public can also turn to the ECA. 'I would like to consider us as a service provider to the EU public, with the European Parliament, among others, being a crucial part of it. In a way, the ECA is the EU's ultimate fact checker. Being critical in a report on how an action was executed does not necessarily criticise the reasons behind those measures. Good, constructive criticism will only make the EU stronger, the more so by highlighting what works, what good practices are. Communicating this clearly to both stakeholders and citizens is essential, and we have to do it in a responsive way, based on the values we underline in our strategy.'



...the ECA is the EU's ultimate fact checker (...) Good, constructive criticism will only make the EU stronger...

Building on his wide experience as an auditor, he sees auditors involving citizens more in their reports, for example in their role as the end-users of programmes and their outputs. In this respect he recalls a story he heard in Kosovo when auditing the former European Reconstruction Agency. 'There was a saying there: the Europeans spend a million euros in Kosovo, but they spend one euro marketing it. The Americans spend one euro on a project and a million marketing it. Just to say that we need to be conscious that we are not simply creating products because we like auditing. We need to do these audits and be eager to disseminate our work, not only to the obvious users, but also to others in society. And find the opportunities to do so.'

Improvement as inspiration

The period of the new ECA Strategy, 2020-25, runs broadly parallel with Zac Kalias' mandate as the new Secretary-General. 'Indeed, quite something to start my mandate with. But I like to think that I am not alone on this. I mean this in terms of staff.' Then,

searching for the right words, he explains: 'The idea that people perhaps have – that we have a new man called Zac now to give us instructions to do this or that, that is not what I am pursuing. I actually believe that people at a more operational level in our institution sometimes know better solutions to the problems we face than people placed at a higher level. I am the sum of the people who work with me.' Then, with a laugh, he adds: 'Perhaps a bit more.'

He gives a recent example of two colleagues who sent him mails and proposed a couple of things. 'One we will do and the other one we are still thinking about it. I very much like the idea that my office and I are seen as an open office, where people can come and throw in ideas on how we can do things better. And then together see how we can improve things. This has already happened during these first few months and I hope it will happen more often in the future.' He explains further by referring to a colleague's proposal to introduce, at the end of an audit task, a rather straightforward evaluation tool to get input from the different parties involved on how it went. 'Something that makes sense, to collect feedback to identify what went well and where we can improve. We should not be afraid of moving on, as an organisation, as the European Union. And it can be quite important to identify whether we are moving forward, standing still, or moving backwards. As long as we aim for improvement.'

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I very much like the idea that my office and I are seen as an open office, where people can come and throw in ideas on how we can do things better.



'It's our people who make the difference!'

Interview with Eduardo Ruiz García, former Secretary-General of the ECA

By Gaston Moonen



Eduardo Ruiz García

On 1 June 2020, Eduardo Ruiz García finished his mandate as the ECA's Secretary-General after more than 11 years. With over 30 years of working experience at the ECA, Eduardo Ruiz García both witnessed and initiated changes - adapting and reacting to and acting upon new developments in the EU's audit environment. Looking back, he identifies a number of key aspects that the EU's public auditor, and particularly its leadership and staff members, may consider for now and the future, both from a practical and strategic point of view.

Strategic lessons from the pandemic

At the end of May 2020, Eduardo Ruiz García left the ECA in the midst of the first wave of the COVID-19 pandemic, as was foreseen before the start of the pandemic. This was not an easy step for him. 'Leading the ECA's administration through the pandemic was one of the most challenging and most difficult things during my time as Secretary-General.' But he thinks it is also an important lesson on how the ECA can provide added value in times of crisis. 'The first thing citizens expect from the European Union is that it ensures coherent action. This includes making sure that the rules and measures related to fighting the Covid-19 pandemic are consistently applied, by all Member States. However, what one can observe is that there are even differences within Member States. And I hope that the relief offered under the recovery fund will be available soon, to ensure social and economic cohesion in the Union. Moreover, we can learn lessons from this crisis for the political set-up of the Union, on how to improve our decision-making, and how to promote best our strategic interests and reduce our dependence on others.'

“*Leading the ECA's administration through the pandemic was one of the most challenging and most difficult things during my time as Secretary-General.*”

Eduardo believes that the ECA can look at a variety of issues here, to add value regarding process and outcome. 'But in a smart way, looking at things where there is a role to play for auditors in the short term, for example looking at procurement procedures, crisis management on the spot, where EU authorities are involved. At the same time we must avoid interfering with the political authorities in the middle of a crisis.' He believes that for the longer term the ECA needs to look at the horizon and look forward. 'Such as projecting the consequences of the pandemic, remaining pragmatic and helping the political authorities to learn lessons quickly, so that the audit work can have an impact on how this crisis and future crises are mastered.'

He agrees that this might not be seen as part of the traditional role of an external public audit institution. 'This can actually create a dilemma for auditors. On the one hand we have to follow procedures, rules and standards. But in any modern organisation – and audit is not an exception – you have to be creative, innovative, you have to adapt to change, this is necessary. And you cannot improvise that. Just because a pandemic arrives doesn't mean that you can suddenly become creative. It is mainly a cultural thing. You have to be prepared, build this spirit of openness, curiosity, the ability to anticipate, the appetite for change. It has to be in the DNA of your organisation. And that takes years, I think.' He adds that the ECA is close to being such an audit organisation. 'But I think the ECA needs to take it a step further and be ready to take a risk, and to accept potential failures and errors. These last years I often heard us saying this, but in practice we may not always have been sufficiently daring.'

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But in any modern organisation – and audit is not an exception – you have to be creative, innovative, you have to adapt to change...

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... the ECA needs to take it a step further and be ready to take a risk, and to accept potential failures and errors.

From an organisation of professionals to a professional organisation

When discussing what he sees as the biggest change in the ECA over the last 30 years, Eduardo does not have to think long. 'When I started working for the ECA in 1989, I had the impression that my colleagues were professional auditors, very capable at what they were doing, with good skills and expertise. But pretty soon I realised, there was a lack of strategic orientation, structure and guidance. For example, at that time, we had no audit manual. I recall that at some moment I thought: "This is an organisation with very good professionals, but it is not a professional organisation." He believes this has changed tremendously. 'Now the ECA is a professional organisation, with good audit methodology, with clear standards in most areas, a more agile organisation, with a management more open to change than it used to be. We have been successful in creating this change.'

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Now the ECA is (...) a more agile organisation (...) We have been successful in creating this change.

He also believes that the ECA has successfully adjusted to a new institutional role. 'The ECA used to be more on the side lines, but is more active now, more focused on topics that are relevant to its stakeholders. As the EU's public auditor, the ECA needs to stay close to the action in the EU.' In his view, it will be important for the ECA to add value by having an impact and promoting trust in EU action. 'As set out in its mandate, the ECA's ambition must be to express an opinion on how the situation looks in reality on the ground. For the auditor, this means reporting on positive and negative things. And the impact will be the trust that the citizen can place in the accounts – and in the actions of the EU, relating to their performance.' In his view, this requires selecting audit topics that matter and reporting on them objectively. 'The ambition should go beyond finding errors, the ECA's mission is wider: to report on the reality of the financial management, appropriately presenting both shortcomings *and* achievements.'

He believes the ECA has improved a lot in its reporting during the past years. 'In my view there is still something lacking, which goes for many other external audit institutions: how to formulate recommendations. This can be quite difficult and tricky. It requires common sense and a balanced approach.' For this, the auditor must be able to place findings in the right context. 'In my life as an auditor, I have seen that a better result was sometimes achieved even if an error was made, than if the rules had been applied to the letter. Here common sense must kick in.'

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... how to formulate recommendations. This can be quite difficult and tricky. It requires common sense and a balanced approach.

A professional life in audit...but outside the ECA

Box 1 – Working for the INTOSAI Development Initiative

The **INTOSAI Development Initiative** (IDI) is a not-for profit, autonomous implementing body operating from Norway, mandated by the International Organisation of Supreme Audit Institutions – INTOSAI, the global umbrella organisation of external public audit institutions - to support supreme audit institutions (SAIs) in developing countries to sustainably enhance their performance and capacity.

In July 2020, Eduardo Ruiz García started a rather different job: as manager in the INTOSAI Development Initiative (IDI). After his first months working with the IDI he continues to be enthusiastic, calling it ‘a dream coming true.’

‘The IDI is a fantastic place to work because it combines audit and development policy, which are two areas which I like very much.’

“*The IDI is a fantastic place to work because it combines audit and development policy, which are two areas which I like very much.*”

Then he reveals: ‘My happiest time at the ECA was when I was working for the predecessor of

the ECA audit chamber currently auditing the EU’s external actions, so in third countries, together with colleagues like Michel Hervé, Philippe Froidure, John Speed and Jean-Michel Gavanier, for example regarding the European Development Fund. Audit and development.’

He explains that at the IDI they are lucky, since they have a very strong e-learning branch. ‘But one of the main problems is the difficulties SAIs are having in continuing their activities in the field, because some of them cannot continue auditing as the ECA does. Part of our work is, for example, coaching some of the SAIs’ audits, helping them put the audit together. The situation is not homogeneous, and for my work it was tough because I could not start on the spot, nor in Norway or my projects with SAIs all over the world.’

For Eduardo, the IDI is contributing in an area where he sees major opportunities for SAIs to add value: sustainable development. ‘I think this will be key. Sustainable development is not only an issue for developing countries, it is also most relevant to Member States and the EU.’ He adds that it is also about becoming a better institution and helping other audit institutions. ‘For example, in Sweden and in Norway SAIs have development programmes and carry them out. Several SAIs collaborate through the IDI, capacity development implemented through peers. For example, in the case of Madagascar, a project I am working on, we will have colleagues from France, Norway and Morocco.’

When speaking about contacts between the ECA and the IDI, it turns out that the ECA has participated in some of the IDI’s activities through workshops and in working groups. ‘But it has not done so yet as peer partner in a specific project for a specific country or region. I am sure our IDI management would be delighted to have the ECA participate in one such project and I invite the ECA to do so.’ He adds that it would be beneficial for the ECA to get involved. ‘You learn a lot from the others, too, as a mirror reflecting your own activities.’

“*... our IDI management would be delighted to have the ECA participate in one such project (...) ‘You learn a lot from the others, too, as a mirror reflecting your own activities.’*”

Opening up to other knowledge organisations

As Secretary-General, Eduardo was very active in promoting a structured approach to knowledge management at the ECA. He explains that the main trigger for him to do so was his belief that, for a public audit institution, as for any organisation that depends on its people, its core knowledge is embedded in its staff. ‘Staff and knowledge are actually two faces of the same coin. So staff development is key for a knowledge organisation such as the ECA. I only fully realised this when I worked as manager in what is now the Directorate of Audit Quality Control in the ECA. Then I saw that the professional training we organised was good, but also, what I would call, too “endogamous”: most of the time we were training ourselves.’ He has no doubt that training on the job is very important. ‘But it should not be the only thing, or even be predominant. Especially, in times where many innovations are going on, you have to catch these developments outside.’

Eduardo decided to change the approach to the ECA's knowledge management. 'I wanted to open up to good practices outside, at other institutions, experts and academia. Because most of the new knowledge will come from universities, including pedagogical techniques to transfer such knowledge: knowledge and how to learn.' To nourish their thinking he wanted to confront the auditors with a different environment. 'And not only to learn but also to realise that what we were doing was quite good. To identify where we stood and where we needed to excel further.'

“ ... most of the new knowledge will come from universities, including pedagogical techniques to transfer such knowledge: knowledge and how to learn.



Eduardo Ruiz García hosting one of the many events he and his team organised

He brings up another motivation for his endeavour: 'One of the problems for public organisations is that you have relatively few incentives that you can offer to your staff. Things are quite regulated, limiting the tools available to motivate people. I think that our colleague – sorry, my former colleague – Magdalena Cordero, once defined it very well for the physical environment. She said something like "I have a vision of the ECA as a *campus*, with the garden in between the different buildings, the cafeteria and the 'aula' where people

can meet.' With a laugh, but then serious again: 'I then said: "Agreed: let us organise the way we work as on a *campus*: to have work, events, conferences, discussions, people working together, also in the canteen, exploring in a class or meeting room, so making the *campus* idea more than merely physical.'

Many will agree that the Eduardo Ruiz García put great energy into turning this idea into practice. During his mandate as Secretary-General the number of lectures and presentations, particularly by experts from outside the house, increased tremendously. 'When I saw something interesting and we had the possibility and the capacity to do it I always tried to organise an event at our premises in Luxembourg. And most often with different layers: an open session in the ECA conference room, followed by a workshop for a more select group of people who also worked on that topic.' He explains that the speaker always came for free, with only transportation and possibly hotel costs reimbursed. 'For them it was also interesting to meet ECA people. To create more informal settings, we sometimes also organised working lunches, inviting people who would also be interesting for our guest to talk to. Because we sometimes forget that the ECA can be an interesting counterpart to discuss with.'

“ ... we sometimes forget that the ECA can be an interesting counterpart to discuss with.

Creating an advanced line of defence

From his over 30 years at the ECA, Eduardo recalls that some topics always reappear when the discussion turns to long-term strategic objectives. One of them is the dilemma of being objective and fair while not being sensational and feeding into unjustified mistrust of public governance. 'This is something most public audit institutions are struggling with and you have to find the right balance. As an auditor you would like to see impact in the way of improvements, but not contributing to scepticism and distrust. You have your legal obligations to report, the audit standards to follow. And a responsibility to report objectively. The question is how to achieve this best. This is a fine line and can be difficult.'

In any case, he is convinced that SAIs need to play their role when it comes to informing citizens. 'And now we not only have the press, but also the social media. They play an increasingly important role in keeping the citizen informed and aware.' Then he refers to a presentation he gave during a conference in Spain a number of years ago. 'We were then discussing the first line of defence: risk management; the second line of defence –

such as internal control, and also the third line of defence, which is the external auditor giving independent assurance. But what I call the 'advanced' line of defence is well-informed public opinion and citizens that are aware of what is going on, also regarding public finances. That is crucial.'

“...the 'advanced' line of defence is well-informed public opinion and citizens that are aware of what is going on, also regarding public finances. That is crucial.”

He explains that this advanced line of defence has only become more important in times of social media, where extreme views are easily expressed and enlarged upon. 'This is an area where the ECA, as an audit institution, should use social media not only to inform people about our activities but also about how public finances are working, raising awareness. I think that the ECA is lucky to have the communication team it has because they recruited very committed people, with good skills in social media. This has changed communication by the ECA in the right direction.'

Making a difference for staff and therefore for the institution

When asked on which issue, which topic he felt that he contributed most as Secretary-General, Eduardo says that, in all modesty, he would like to mention two issues. 'The first one, which is also the most emotional one for me, is the ECA's response to the COVID-19 situation. For me it was crucial we handled this one as well as we could. And this is not really my achievement but the achievement of many people in the house. My pride lies in the privilege of working with all the people who helped us to successfully overcome the difficulties in the initial phase of the pandemic. The ECA continued to be operational and in mid-March 2020, 100% of our staff went into remote working within two days.'

“The ECA continued to be operational and in mid-March 2020, 100% of our staff went into remote working within two days.”

He observes that the foundations for maintaining business continuity so effectively were laid well before, in terms of investments in IT, security, and health measures. Plus a flexible approach to dealing with the situation the best way you can. 'Because you need to be practical. For example, I still remember somebody asking me, in March 2020 when the lockdown started, if a colleague could take his computer screen home. I replied: "The screen, the keyboard, even the chair if you want." Later on, I understood that in other institutions they had not been that flexible. But for me it was clear that we had to do as much as possible to facilitate teleworking.'

The second issue Eduardo identifies as where he thinks he made a difference relates to staff development and knowledge acquisition. 'I wanted to place both these aspects at the core of our management approach and I think we were successful in this. As an audit institution, you add value when you have a positive impact on how things are done on the ground. But how? Unlike a production line, the performance of an audit institution - be it in the public or private sector - relates to good governance, good procedures, the right tools and resources.' He argues that this is multiplied by staff performance, which works as a kind of coefficient to increase your organisation's performance. 'You can have the best governance, the best procedures, etc., but if your staff's performance is bad, your final performance will be meagre or could even be negative.'

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Eduardo also considers that his influence as Secretary-General on the ECA's governance was limited. 'This is arranged for in the Treaty and is the College. Regarding audit procedures, I used to have some influence when I was in what is now called Audit Quality Control, but as Secretary-General, again: limited or no influence. I concluded that where I could really make a difference was in setting the right framework to increase staff performance.' For this, he was also inspired by a presentation given by Victor Küppers, a Dutch professor from the University of Barcelona, who has also given [TED talks](#) on staff performance. 'He spoke about people's performance in the sense of a formula, which is: knowledge plus skills, multiplied by the attitude you have. He very much emphasised motivation: if you are motivated you will boost the combination of your knowledge and skills.'

“... if you are motivated you will boost the combination of your knowledge and skills.”

Eduardo lights up as he continues. 'I said to myself: "This is a nice formula and I can intervene to make a difference in all three: knowledge, skills and attitude." Because in the end, it's our people who make the difference! As to knowledge, we can work on audit techniques, analysis of data, economic analysis, public policy review, etc. And we did, for example through the Masters programme we developed and the statistical diploma, both with the University of Nancy. Or the summer school initiative with the University of Pisa, or our learning cooperation with the Commission and Deloitte, the private audit firm.' Concerning skills, he gives as examples the training staff can have on oral, written and non-verbal communication, presentation techniques, leadership skills development and others. 'We have boosted the courses on offer, and participation - relating to soft skills training.'

Regarding attitude he believes this relates to a large variety of issues: 'This can range from inclusion in a peer review team, addressing gender and equality issues, ethical guidelines. And introducing signs of recognition beyond promotion and career development tools, such as the performance awards we introduced, and facilitating participation in studying at universities.' Other elements he sees are creating sports facilities – the ECA 'Makarena' playfield, the ECA's gym - or organising the staff summer party, supporting the ECA football or the ECA sailing team. 'By offering such opportunities you increase the feeling among staff of belonging to an organisation that cares! And the ECA does.'

While discussing staff development – relating to knowledge, skills and attitude - as a key area where he tried to make a difference, Eduardo also identifies it as the area where he had to take the toughest decisions. 'The most difficult issue for me as Secretary-General related to delicate staff matters. You have to decide on things that have quite an impact on individuals. This can relate to the choices you have to make regarding people, such as on promotions, but also on measures which can have an impact on a colleague's career or on individual well-being. It includes a whole range of people's issues you have to deal with. Those are difficult, of course part of your job as Secretary-General, but they nevertheless can be – and sometimes were - quite a burden.'

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The most difficult issue for me as Secretary-General related to delicate staff matters.

Contributing to trust, both outside and inside the ECA

For Eduardo it is clear that one of the core roles the ECA has to play is to contribute to trust, the trust EU citizens can have in EU measures and the organisations carrying them out. 'This was the key theme of the 2018-2020 ECA Strategy and I think it will continue to be important for the future. The ECA's main role is to help EU measures to have most added value, to help EU institutions to function better and show that they are held accountable for that. And I think the ECA needs to highlight the tasks the EU has committed to contribute to.' In this respect, he explicitly refers to the Sustainable Development Goals (SDGs). 'I really like these SDGs and I think it is the first time that there is really a global agenda, for the rich countries, for the poor countries.'

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Eduardo also underlines the importance of using foresight as a tool for SAIs to identify topics that will matter in the future and optimise an SAI's added value. 'The COVID -19 pandemic has shown how fast circumstances and activities can change and foresight exercises can identify relevant areas for public auditors to consider: research, climate change, defence, new agricultural approaches, etc.' He points out that the EU public wants to know how the EU budget, but also new instruments such as the Next Generation EU, have performed. 'The ECA can provide insights into that, in particular through its performance audits, thereby contributing to this advanced line of defence I referred to earlier.'

Trust is also a key element in the relations he developed with his colleagues at the ECA. 'Honestly, what I am very proud of was to be able to work with all my colleagues. This is not an empty phrase. It is a life experience! I learned so much from different colleagues, from auditors, from

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... what I am very proud of was to be able to work with all my colleagues. This is not an empty phrase. It is a life experience!

translators, from IT experts, people in the administration, in security, my cabinet staff. Both from a professional and personal point of view. I consider myself very lucky to have been surrounded by these people. I had the privilege to work very closely to several ECA Presidents: J.O. Karlsson, J.M. Fabra Vallés and V. Caldeira. And this is what I really miss, my colleagues at the ECA. I miss the meetings with my managers, my office, my staff. But I also miss playing football with my colleagues, having a talk with a security colleague or with one of the drivers.'

For Eduardo, it is the staff and their diversity, in terms of age, nationality, knowledge and character that exemplify what the ECA stands for. 'The ECA really offers a cosmopolitan professional environment. This needs to be preserved, for example by means of recruitment. We launched recruitment for IT specialists, data analysts, statisticians. I think this should be extended to other areas, to also bring in people with a social science background. Not all ECA staff need to be trained auditors to provide added value.' This is the most important since for SAI, developing Digital Audit is paramount to remain relevant.

Speaking about trust also brings Eduardo to one of the things he regrets not pursuing further, which relates to teleworking. 'I regret that I was not brave enough to push for teleworking before the ECA went into remote mode in March 2020, following the first lockdown. The more because I really wanted to. But I met a lot of resistance and I thought that without support it would be difficult to implement such a move.' In his view, the willingness to embrace remote working is directly related to trust. 'My vision of teleworking was that I did not want a set of complex rules. No, I wanted trust. If you want to go out and telework, then, as manager I would say: "Please, go ahead, do it." And if there is a problem, if trust is abused, as a manager you have to tackle that. And this was difficult for some managers. But people feel responsible. This was already the case before the pandemic hit us, and was then demonstrated by ECA staff in their work and commitment when there was no other option than to work remotely.'

“ people feel responsible. This was already the case before the pandemic hit us, and was then demonstrated by ECA staff in their work and commitment...

Then Eduardo concludes: 'This is also the main advice to my successor, Zac Kalias. Trust your staff! I am confident he will.'

The road to the ECA 2021-25 Strategy – a participative process from planning to implementation

By Derek Meijers



In January 2021, the ECA College adopted its new strategy for the period 2021-2025. With it, our institution aims to be well equipped to make a valuable contribution to a more resilient and sustainable Union and to strengthen its role as the EU's independent external auditor. Derek Meijers provides some background information on the history of strategic planning at the ECA, gives an overview of the process put in place to prepare the 2021+ strategy and its main inputs, and clarifies the links between foresight and strategy work. In addition, he looks at implementation - one of the most important (and difficult) aspects of any strategy.

A new strategy for the ECA

In any large organisation, private or public, strategic planning is key to defining longer-term priorities and goals. It also helps to plot a course to achieve those goals, informs organisational needs and guides the allocation of resources.

In January 2021, the European Court of Auditors (ECA) adopted its new strategy for the period 2021-2025. With it, our institution aims to be well equipped to make a valuable contribution to a more resilient and sustainable Union and to strengthen its role as the EU's independent external auditor. The preparatory process for this new strategy lasted almost a full year, and important stages of the preparatory process took place under lockdown conditions and remote working, due to the COVID-19 crisis.

The five-year period of the new ECA strategy (2021-2025) largely coincides with the period covered by the new multiannual financial framework (MFF) and the 'Next Generation EU' (NGEU) recovery plan (2021-2027) - with their ambitious goals as regards climate policy (through the *Green Deal*) and the digital transformation - and also coincides with the remaining legislative term of the current European Parliament (2019-2025).

Coincidentally, our new strategy will take effect in a period for which the EU and its Member States have taken unprecedented social, economic and financial measures to address the effects of the crisis caused by the COVID-19 pandemic. After a difficult start, the EU has played an increasingly important role in coordinating the response of EU Member States to fight the COVID-19 pandemic and has made extensive use of the few tools at its disposal, despite the fact that the European Commission itself has limited authority in the area of public health.

A major step in this regard was the political agreement at the European Council in July 2020 on the new multiannual financial framework (€1 074 billion) and additional expenditure related to the COVID-19 recovery, through the Next Generation EU plan (€750 billion), which represent a paradigm shift for EU finances and for our work as the Union's independent external auditor. In particular, the issuing of bonds by the EU to finance the Recovery and Resilience Facility (€672 billion) will radically change the shape of EU finances in the coming years. They will become largely debt-financed. Moreover, most of the EU's financing, at least in the coming three years, will be made through extra-budgetary bilateral agreements signed with individual Member States, i.e. no longer through the EU budget which we are familiar with. This will also have significant implications for the way the Commission monitors performance (of Member States) in the context of the use made of the EU's financial support in future. And it will have significant effects on the implementation of the ECA's 2021-2025 audit strategy, if only because the EU funds to be audited will have almost doubled.

Box 1 - Strategic planning – what does this mean in the context of an SAI?

Strategic planning as defined by INTOSAI and in practice

According to the INTOSAI Handbook for Supreme Audit Institutions, *strategic planning* involves '(...) the sustained development of the core skills and capabilities of SAs to use their resources optimally and to deliver their mandate more effectively to create a desired impact.'

Strategic planning thus helps a Supreme Audit Institution (SAI) to set out its *strategic orientation and organisational priorities* as well as to *communicate its intentions* to its internal and external stakeholders. In doing so, an SAI must take account of the institutional and legal environment in which it operates, stakeholder expectations as well as current and emerging risks.

Core principles for the *strategic development of SAs* are set out, for example, in the professional pronouncements established by INTOSAI, and the handbook for SAs on strategic planning issued by the INTOSAI Development Initiative (IDI), which has recently been updated (see page XX in this Journal).

In practice, an SAI uses its strategy to present its overall *orientation and organisational priorities*, to outline its long-term vision, and to set out its key objectives. Such a document may cover both *audit-related and non-audit-related activities* and provides a basis for the development of the SAI's *operational planning*, such as detailed (multi-) annual work programmes, individual audit programmes, and, finally, the actual implementation of audit tasks. SAs generally make their strategic planning *publicly available*. By monitoring the *progress towards its strategic objectives*, the SAI can recognise risks and identify development challenges which it may need to tackle.

Use of strategies by other SAs: within the EU and beyond

EU SAs differ in terms of their responsibilities, competences, working methods, products, and approaches to their role and work. Nevertheless, setting out *strategies is a common practice* amongst SAs and an increasing number of them use strategies to guide their work. The *majority of EU SAs* (23 out of 27 Member States plus the ECA) prepare a document that can be seen to correspond to a multiannual strategic plan and the SAs that do not prepare multiannual strategic plans as such generally operate on the basis of annual plans. The planning period covered by the various SAI strategic documents varies, but most strategies cover between three and seven years. Many SAs allow for periodic updates if needed, for example to respond to a crisis, such as the recent COVID-19 pandemic (see also page XX of this Journal).

On a global level, the *US Government Accountability Office (GAO)* and the *UK National Audit Office (NAO)* are other examples of SAs that work with comprehensive strategies, and we also looked at their strategic documents during the process of preparing the current proposal for our own strategy.

Strategic planning at the ECA

Although self-evident today, the concepts of strategy and strategic planning did not always play a similar role at the ECA as they do nowadays. The reason for this was that, at the time the ECA was established in 1975 by the Treaty of Brussels, audit work was generally considered as an administrative activity, in essence a professional accountancy product. Nonetheless, certain considerations of the ECA in those early years following the ECA's establishment could be interpreted as strategic thinking, for example regarding the role and possible impact of value-for-money audits, or the need to detect fraud and to encourage accounting practices which were designed to prevent fraud. However, such deliberations did not yet constitute a structured strategic approach towards the role and work of the ECA.

From the Statement of Assurance towards a strategy-driven public audit institution (1990s-2000s)

In the early 1990s, first reflections started on the need for a strategic approach to interpret our (new) Treaty mandate and our role in the EU's accountability arrangements, due to the introduction of the Statement of Assurance (SoA) by the Treaty of Maastricht (1992). This shifted the focus of the ECA's work from value-for-money audits towards financial and compliance audit and may also have contributed to the fact that, up to the early 2000s, there was no explicit strategy in place to structure and guide the way in which the ECA carried out its other audit activities.

In the early 2000s, the ECA started its journey towards becoming a strategy-driven public audit institution. This may, or may not, have been influenced by a general trend to adopt the methods of New Public Management (NPM) across EU institutions. In any case, it was also in these years that the European Commission started to deploy strategic planning tools. Then, in 2002, the ECA decided to set up a Working Group on Communication, which, among other things, was tasked with developing proposals for improving the quality of the ECA's reports and developing a policy for disseminating those reports. Even without using the term 'strategy' explicitly, the Working Group developed elements of what we now consider to be key components of a corporate strategy. Their work led to a number of innovations, such as a first mission statement, the first draft activity report and a new logo. It was in these years that we, at the ECA, started using the term 'strategy.'

However, this term was used and understood almost exclusively in the context of 'audit strategy', mainly referring to the multi-annual setting of priorities and planning of audit tasks. In 2006, another main impetus for the ECA's strategic development came from the 'Self-assessment – peer review'¹ process, which culminated in the ECA setting out its mission, vision, values and strategic objectives for the first time in its history. As a result of the self-assessment process, in July 2008, the ECA adopted an Outline Audit Strategy for the period 2009 to 2012. This first ECA 'corporate' strategy presented a vision of 'where we want the Court to be in 4 years.' It was also published externally in a *condensed version* as [Audit Strategy 2009-2012](#).

Since then, the ECA has made use of formal strategies to set priorities and develop its organisation. So far, there have been three such strategies:²

- [Audit Strategy 2009-2012](#), adopted in March 2009: its main objective was to *maximise the overall impact of the ECA's audits* and increase efficiency by making the best use of available resources;
- [Strategy 2013-17](#), adopted in June 2012: its main objective was to *maximise the value of the ECA's contribution to EU public accountability*. This was to be achieved by focusing our products on improving EU accountability, leveraging our impact through cooperation with others, further developing ourselves as a professional audit institution, making the best use of our knowledge, skills and expertise, and demonstrating our own performance and accountability;
- ['Fostering trust through independent audit' \(2018-2020\)](#), adopted in June 2017. This latest strategy covered all three years from 2018 to 2020. It focused on *fostering trust in the EU through independent audit* and providing insight into what works and what does not work in EU spending and other actions. Through the related strategic goals, we aimed to improve the added value of the Statement of Assurance in the context of EU financial management, increasing our focus on performance aspects of EU action, getting clear messages across to our audiences, and gearing our organisation to our products.

Preparing the 2021+ ECA Strategy – a participative process

In September 2019, the ECA kicked-off its work on the development of its new strategy, which culminated in the approval of the ECA 2021-25 Strategy in late 2020. From the beginning, the preparatory process was intended to be a transparent and participative one that actively involved all Members, managers and staff.

1 The results of the Peer Review were published that same year: [International Peer Review of the European Court of Auditors](#), 2008.

2 All these strategies were also made public and can be accessed on [our website](#)

The ECA divided its preparatory work into a diagnostic and a consultation phase. In the latter, importantly, we not only sought high-level advice and input from external stakeholders, but also discussed the various aspects and possible approaches of the next strategy with colleagues from all the different levels of the organisation. Internally, in 2019, the ECA established the 'Strategy and Foresight Advisory Panel' (SFAP), consisting of five ECA Members and supported by staff, which focused on strategy development.

During the diagnostic phase, we carried out a comprehensive assessment of the main risks and challenges, for which we also used foresight techniques. For this purpose, we considered a number of documents prepared in parallel with the strategy process and carried out some further dedicated analysis. Many of these inputs were the product of external stakeholders and helped us to gain a better understanding of the expectations of our stakeholders as well as EU citizens regarding the ECA's role (see **Box 2** below).

Box 2 - Key inputs for the ECA's strategy development

Evaluation of the 2016 Administrative Reform In November 2019, a working group of ECA Members presented an internal report on the *review of the administrative reform* that the ECA implemented back in 2016. This report showed how the ECA's current practices were seen by the different actors involved, based on inputs gathered through focus group meetings, bilateral interviews and written contributions of staff. Although the report focused mainly on the roles and responsibilities of those involved in the audit cycle, it also addressed other aspects of the functioning of other support services in relation to audit. In it, the working group presented several proposals for the introduction of clearer roles and responsibilities, streamlined procedures and more efficiency in the audit cycle. Furthermore, the report underlined the need for the ECA to develop further, not only as a task based organisation but also as a knowledge-based organisation that relies on competences and skills.

In July 2020, the ECA endorsed the recommendations of the group and referred a number of them directly to the new strategy. This report was thus a first important input for the strategy development process.



Peer review of the 2018-2020 strategy

In September 2018, the ECA invited the Supreme Audit Institutions of Estonia (Riigikontroll), Denmark (Rigsrevisionen), the Netherlands (Algemene Rekenkamer), and the United States of America (Government Accountability Office) to carry out a *peer review of the implementation of the ECA's 2018-2020 Strategy*. The peer review was conducted in accordance with INTOSAI GUID 1900 (Peer Review Guidelines). The specific terms and conditions were set out in a Memorandum of Understanding (see also page 115 of this Journal).

In particular, the peer review team assessed the extent to which the ECA had implemented its *strategic goals for the period 2018-2020* and whether their implementation was likely to achieve the desired effects. This peer review served as an external assessment and, at the same time, was intended to provide an input for the preparation of the post-2020 period strategy. In September 2019, the peers presented their preliminary findings at the annual ECA seminar to Members and senior managers. The **peer review** itself was finalised in January 2020 and published during the lockdown in March 2020. This external assessment was extremely helpful for preparing the 2021+ strategy as it provided a number of important lessons-to-be learnt early on in the process.

External assessment of the ECA's ethical framework

Finally, during 2019, the SAIs of Poland and Croatia reviewed the [ECA's ethical framework](#).



In particular, the review looked at the ethical framework put in place by the ECA for its Members and staff, taking account of the international standards of the Supreme Audit Institutions (ISSAIs), relevant EU legislation, recognised best practice and the applicable internal rules. This review was particularly informative regarding the discussion of institutional values, as well as the mission and vision statements.

Priorities of our institutional stakeholders

In our new strategy, the ECA aims to become even more relevant for its main institutional stakeholders, the European Parliament (EP) and the Council, with its audit work having an even higher impact on future legislation. This is why the ECA also examined the strategic priorities set by the other EU institutions:

- the priorities of the European Parliament, published in October 2019;
- the European Council's strategic agenda, published in June 2019; and
- the political priorities of the European Commission, published in July 2019.

In addition, we analysed EP and Council comments, suggestions and expectations regarding the 2021+ ECA strategy, which were received through different channels. Examples of these are the annual discharge procedure, letters with audit suggestions from the EP Conference of Committee Chairs (CCC), meetings of MEPs with ECA Members during report presentations, stakeholder surveys, or informal feedback from the DOP's institutional liaison team. Moreover, the SFAP considered the views expressed by EU citizens from various EU Member States on the present and future state of Europe, as in the [Eurobarometer surveys](#), on where the EU mattered most to them and what they thought of the state of EU finances. Finally, the ECA followed closely the discussions on the next MFF and the NGEU recovery plan.

Consultation with Members and staff

Between October and December 2019, the ECA invited Members and directors to participate in the consultation process, which was built around a number of round tables, video testimonials by several staff members that were published on the ECA's intranet, and surveys, aimed at discussing different aspects of the strategy envisaged. From these discussions, the ECA took away many interesting ideas and suggestions to reflect upon.

Furthermore, the ECA organised a series of workshops for ECA Members, management and staff to provide background information on the preparatory work for the new strategy that had been carried out so far. During these workshops, ECA Members explained the strategic choices proposed in the draft strategy. The workshops followed a standardised structure and covered the following topics:

During these workshops, ECA Members explained the strategic choices proposed in the draft strategy. The workshops followed a standardised structure and covered the following topics:

- the values and vision and mission statements;
- the ECA's positioning as the EU's independent external auditor until 2025, interinstitutional relations, international cooperation and communication;
- strategic options for the performance audit;
- the strategy planning, multi-annual and rolling programming and knowledge management frameworks; and
- the digital transformation and sustainability in the ECA.

Implementing the ECA 2021-25 Strategy

Following the adoption of the ECA 2021-25 Strategy in January 2021, the most important task commenced: implementing the strategy. To support this, the ECA will organise several internal activities (also in line with recommendations from the abovementioned peer review) to disseminate its 2021-25 Strategy and to foster a thorough understanding of the new strategy among both its leadership and staff, engraining its relevance for the organisation and their work. Finally, the ECA 2021-25 Strategy, its context, goals and enablers have been made public and communicated to all institutional stakeholders, for example through presentations to the European Parliament and the Council, or through this special edition of the ECA journal. In addition to this, implementation will be shaped through the [ECA 2021 work programme](#), which was developed in parallel with the ECA 2021-25 Strategy.

Box 3 - Developing the strategy draft during the COVID-19 lockdown

From an organisational point of view, the preparation of the strategy was certainly not made easier by the lockdown, following the outbreak of the COVID-19 pandemic. Despite the difficulties imposed by working remotely, the ECA decided to continue with its preparatory work for the 2021+ strategy.

At the same time, the fact that the COVID-19 pandemic struck during the spring of 2020 allowed the ECA to take account of the impact the crisis had – and continues to have – on numerous policy areas and the response of the EU and its Member States to it. In this sense, the ECA 2021-25 Strategy is already COVID-19 proof.

Primarily based on its 'enablers chapter', the ECA 2021-25 Strategy will also serve as a guideline for non-audit tasks carried out during the coming five-year period. To support this, the ECA will make use of annual implementation plans to align the audit and non-audit work carried out closely with the strategy. Apart from offering the necessary flexibility and responsiveness to unforeseen (and unforeseeable) events, these operational programmes will ensure that the ECA only carries out audit and other tasks that support the strategic objectives for the 2021-25 period. They also provide detailed directions that can help both management and staff to take decisions and to execute their assignments in line with the strategy. In doing so, the ECA aims to ensure that its day-to-day functions and processes are aligned better with its strategic orientations.

Finally, following its positive experience with its the last strategy, the ECA is considering organising a peer review, possibly preceded by a mid-term review, of its current strategy, that can serve as input for the ECA strategy for beyond 2025. Together with feedback from stakeholders and changes in the ECA's audit environment, this will undoubtedly provide inspiring input with a view to keeping ECA activities relevant and impactful, improving accountability, transparency, the quality and effect of EU actions, and their financial management, all guided by an up-to-date and, hopefully, ambitious new strategy.



Audit gaps and accountability challenges - ECA actions in the past

By James McQuade, Financing and administering the Union Directorate, and Jacques Sciberras, Regulation of markets and competitive economy Directorate



Source: fpm / Getty Images

In its 2021-2025 Strategy, the ECA has identified 'Improving accountability, transparency and audit arrangements across all types of EU action' as one of its three strategic goals. Already in the past, the ECA has reported about gaps and overlaps regarding audit and accountability on a number of occasions. Jacques Sciberras and James McQuade have worked on these issues for several years. Below they provide a succinct overview of the ECA's previous reporting on this topic and provide insights into ongoing work in this area.

Public accountability in the EU: our contribution as the EU's independent external auditor

Our audit work continuously adapts to changes in the European Union institutional setup – budgetary instruments, policies and programmes, and professional developments. We provide assurance on the accuracy and reliability of the financial statements of the EU budget, on their compliance with EU rules and regulations, and on whether the performance of EU actions is in line with the principles of sound financial management, i.e. looking at economy, efficiency and effectiveness. Ultimately, our work supports parliamentary oversight and public accountability.

Our relevance requires focus on areas posing the highest risks to or impacts on the financial interest of the Union, but it also requires a framework of conditions, which ensure that we can audit EU bodies, revenues and spending programmes, and the implementation of policies, and that our work is reported to parliaments for democratic oversight and public scrutiny.

For this reason, successive ECA strategies have focused on the need to further improve accountability, transparency and audit arrangements across all types of EU action. These include:

- parliamentary scrutiny procedures;
- appointment of external independent auditors;
- access rights to all the necessary information for the auditors;
- reporting obligations to parliaments; and
- broad audit mandates for financial, compliance and performance audits to be carried out.

Over the years we have identified audit gaps where either auditors do not have broad enough mandates or face restrictions as to what they can audit and to whom they report, where multiple auditors are involved with overlapping and duplicating audit activities, and where complex multi-layered governance structures spread responsibility between EU, Member States and other authorities involved.

In recent years, the ECA has developed its approach to assessing accountability and audit arrangements (both existing and new ones). Across our various reviews, opinions and reports we can identify the main conditions required for a sound accountability chain, and can trace areas which pose challenges and where further reflection may be required for improvement.

Reviewing accountability and audit gaps

In this section, we highlight some of the prerequisites for accountability or gaps and overlaps in the system, as identified in our reports over the last few years.

ECA opinions and reviews 2010-2014

In 2010, our [Opinion 1/2010](#) on high-risk areas in EU expenditure highlighted the principles of clarity of objectives, simplification, realism, transparency and accountability, and called for improvements in ex-ante evaluation and impact assessments to address the questions as to whether and how a programme delivers European added value.

In 2011, in our [position paper](#) entitled *Consequences for public accountability and audit in the EU and the role of ECA in the light of the current financial crisis*, we took stock of the numerous changes in response to the financial crises of 2007-2010. We highlighted some systemic failures in the system of EU-level financial supervision, the different instruments being set up to assist Member States at the time (Commission medium term financial assistance facility, the European Financial Stabilisation Mechanism (EFSM), the European Financial Stability Facility (EFSF), and the European Stability Mechanism (ESM)), as well the reforms to fiscal and economic policy coordination (which saw the Strategy and Growth Pact (SGP), the Six-pack and Two-pack, the Treaty on Stability, Coordination and Governance (TSCG) come into existence). In view of the wide-ranging impact of these regulations, we eventually decided to set up a new dedicated team focusing specifically on performance in the EU's financial and economic governance.

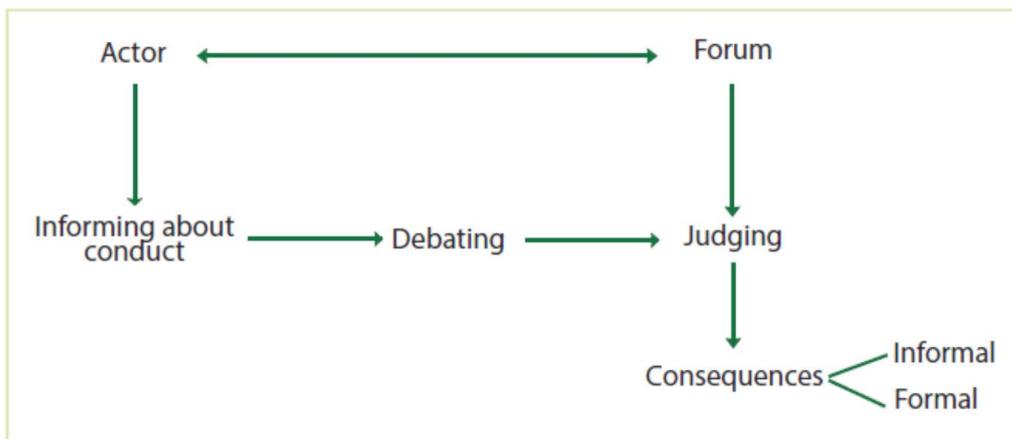
We also called for new measures to respect the principle that 'where public funds are at stake there should be adequate arrangements for transparency, public accountability, and public audit.' This concept of accountability is based on the work of Professor Marc Bovens, who had developed a conceptual framework for analysing and assessing accountability (see **Box 1**).

Our [2013-2017 strategy](#), which set the overall objective of maximising the value of our contribution to EU accountability, also drew on this concept of accountability. A key action was the publication of [Review No 1/2014](#) on *Gaps, overlaps and challenges: a landscape review of EU accountability and public audit arrangements*. The review analysed EU public accountability and audit arrangements in place at the time.

In this review, we developed a set of six key elements that we considered necessary for a sound public accountability and audit framework - each element representing an indispensable link in a chain (see **Table 1**).

Box 1 – Accountability as a social relationship: key dimensions

Professor Bovens conceived of accountability as the relationship between ‘actors’ and a ‘forum,’ in which actors inform the forum about their conduct and performance and the forum is vested with the authority to judge the actors and require them to take corrective action if necessary.



This model helps to assess some important challenges regarding accountability frameworks in general. For example:

- actors in public institutions may face the problem of dealing with many layers and dimensions of governance with multiple forums for scrutiny of actions — ‘many eyes’ dealing with oversight;
- parliaments and other authorities responsible for scrutiny of public bodies face the challenge of multi-party or multi-layered executive structures, making it difficult to determine who is to be held accountable. This is often referred to as a problem of ‘many hands;’
- another challenge that emerges is in terms of *what to account for*. Parliaments may face a choice of putting emphasis on scrutiny over inputs — especially financial inputs — or focusing on impacts and results; and
- finally, the challenge of ensuring accountability extends beyond statutory and parliamentary scrutiny. Public entities face the challenge of managing *relations with the public in general*, as well as their employees, main customers and other stakeholders.

Table 1 – Six key elements for public accountability and audit

1	Roles and responsibilities	→	Roles and responsibilities assigned to all EU and other bodies involved in implementing policies and managing funds.
2	Information and reporting	→	Requirements for public managers to provide sufficient, relevant, accurate and timely information and reporting on implementation and results for accountability purposes.
3	Democratic scrutiny and audit	→	Arrangements and opportunities for democratic oversight and scrutiny of public managers by parliaments.
4	Consequence and feedback	→	Mechanisms to ensure the results of public oversight and scrutiny are taken into account in the legislative and budget setting procedures.
5	Public audit mandate	→	Appointment of independent external auditors with powers to carry out a wide range of public audits (financial, compliance and performance audits), the right of access to necessary information, and requirements to report to parliaments and the public.
6	Audit reporting and follow up	→	Provisions for follow-up of and reporting on the results of public audit.

Table 1 – Six key elements for public accountability and audit

We also highlighted a number of features giving rise to accountability challenges in the EU context. These were:

- intergovernmental arrangements for implementing EU policies leading to fragmented scrutiny arrangements;
- the ‘multi-speed arrangements’ in some policy areas involving different groups of Member States;
- the inconsistent and disproportionate levels of audit and parliamentary scrutiny for the different EU institutions, bodies and agencies depending on their funding arrangements;
- the sharing of responsibility between the EU and national level for the vast majority of EU expenditure;
- the limits imposed on EU audit mandates by spending funds in partnership with other international organisations (e.g. UN and the World Bank); and
- the inherent and resource difficulties associated with assessing the results and impacts of the implementation of strategies, laws and regulations.

In the review, we also provided some general conclusions on how to improve accountability and public audit at EU level. In particular, we advocated:

- a more collaborative system of scrutiny (parliamentary oversight and public audit) for coordinated or intergovernmental instruments between the EU and Member States;
- a more consistent and comprehensive set of arrangements across all EU policies, instruments and funds managed by EU institutions and bodies;
- better management and control systems regarding EU activities and funds as a prerequisite for transparency, good governance and accountability;
- more focus on measuring EU policy impact and results where the EU budget plays a relatively small role, but where there is significant regulatory or legislative provision at EU level – a goal requiring a level of enhanced cooperation between EU and Member State parliaments not provided for by the existing accountability and audit architecture; and
- exploring opportunities for avoiding costly audit overlaps should be explored, primarily by ensuring that auditors at each level can rely on the work of other auditors.

ECA opinions and reviews relating to the 2021-2027 MFF

The analysis and suggestions in our 2014 Review were followed up in a series of contributions to the European Commission’s legislative proposals for the 2021-2027 Multiannual Financial Framework (MFF).

In 2016, we issued a [briefing paper](#) regarding the mid-term review of the MFF 2014-2020. Here we called for a re-think of the way the EU budget operates to make it more flexible, transparent, and accountable. We recommended a comprehensive EU spending review and a high-level debate on how to make the EU funding arrangements clearer, simpler and more coherent.

In 2017-2018, we carried out a number of specific projects reinforcing accountability arrangements. For example, the Commission appointed private external auditors for all agencies and bodies of the EU for the first time. During this transition, we ensured that all contracts provided for access to the work of other auditors to avoid costly duplication of audit work, to be able to rely on such work when possible, and be able to issue the ECA’s annual audit reports on time.

We also carried out a series of reports which related directly or indirectly to the EU’s financial and economic governance: [special report 29/2016](#) on the newly established Single Supervisory System (SSM); [special report 17/2017](#) on the Commission’s intervention in the Greek financial crisis (and the related ECB involvement in the Greek Economic Adjustment Programme); [special report 23/2017](#) on the Single Resolution

Board (SRB); and [special report 02/2018](#) on the ECB's crisis management in relation to its banking supervision.

In all four reports we felt obliged to issue limitations of scope regarding our audits, as the ECB had limited our access to information. The European Parliament called for the situation to be addressed and improved. In a communication to the European Parliament in December 2018, we explained what efforts we had taken to remedy this situation and reported about the lack of progress. In October 2019, after long discussions held with the ECB, a [Memorandum of Understanding](#) was signed, outlining important principles and arrangements for access to sensitive information for the purpose of our audits in relation to the SSM Regulation.

Our [2018-2020 strategy](#) focused on reviewing the approach to producing our Statement of Assurance and enhancing its added value, reinforcing our attention to performance audit work on various policy actions of the EU, and improving the clarity of message of our reports and communications.

Our [Review 1/2018](#) on the Commission's reflection paper on the future of EU finances repeated the call for making all EU finances more transparent and accountable, based on applying the six principles outlined in the 2014 review. We observed that establishing instruments outside the EU budget had undermined accountability and that existing arrangements – even for the EU budget – were primarily focused on ensuring accountability for resources used rather than the results of implementing EU policies. We also highlighted that:

- increased spending on external action would result in more funds from the EU budget being managed in trust funds, in partnership with international organisations and by third countries on whose systems reliance would need to be placed;
- further growth in the use of financial instruments would result in the EU placing greater reliance on the European Investment Bank (EIB), whose operations largely lie outside the scope of the EU budget discharge procedure; and
- the EU would continue to face challenges in simplifying and rationalising the management and control at Member State level of revenue collection and expenditure under shared management.

As regards closing EU level audit gaps, we proposed that we should be mandated to audit all EU bodies including the European Defence Agency and the proposed European Monetary Fund (EMF) – a point reiterated in our [Opinion 2/2018](#) on the proposed EMF. We also proposed that we should be invited to audit all bodies created outside the EU legal order to implement EU policies, such as the ESM. We also noted that such a mandate would not preclude a private audit company from being engaged to provide independent audit assurance on the reliability of accounts.

We also drew attention to accountability and audit issues in a second review in 2018, [Review 6/2018](#), and several opinions and briefing papers on specific spending areas and programmes (summarised in [ECA remarks in brief on the Commission's legislative proposals for the next multiannual financial framework](#) of February 2019). These included calls for reinforcing the independent external audit function regarding bodies set up by the EU.

Ongoing work and new developments that require deeper focus

Following the EU's response to the COVID-19 crisis, we published [Opinion 6/2020](#) on the proposed Recovery and Resilience Facility (RRF), as part of the 'Next Generation EU' (NGEU) initiative. Amongst other things, we pointed out the lack of explicit provisions in the regulation with respect to the role of the European Parliament in the budgetary process or the ECA's audit rights. In addition we remarked that the draft regulation did not explicitly mention whether the [EU Financial Regulation's](#) provisions related to the establishment of the RRF's budget and whether the discharge procedures would be applicable to the RRF. We considered that the role of the European Parliament in the budgetary and discharge procedure should be clearly defined in the regulation.

Changes were made in the subsequent regulation adopted by Parliament and Council to clarify these issues.

Finally, let's look ahead toward a post COVID-19 scenario and what changes this may bring to the regulatory framework. At some point, the Commission will initiate the reversal of the general escape clause applied in terms of the EU fiscal framework. Possibly, this could be expected to coincide with the conclusion of the ongoing (temporarily suspended) Commission review of the fiscal and economic governance framework of rules (namely the Six-pack and Two-pack rules). Our past audit work on the different elements of this framework has created a sound basis for making contributions to any new proposals with respect to the key elements required for accountability for the reformed governance system.

Ultimately, during 2021 and 2022, the conference on the Future of Europe is expected to prepare a report for the European Council. This will provide us with a new opportunity to contribute our views on how to improve accountability, transparency and audit arrangements across all types of EU action – as stated in *Goal 1* of the [ECA 2021-25 Strategy](#).

New insights through the 'observer effect'

We all studied the atom in our schooling years – plastic models in labs showing a structure with a nucleus and revolving electrons. However, in reality, electrons only become visible (in a physical sense), when placed under observation in a certain way that alters their state. In quantum physics, this phenomenon is known as the *observer effect* - the idea that the action of observation effects the physical reality of what is being observed.

Accountability is like that. As Professor Bovens puts it, the accountability mechanism creates a new social reality. When focus is applied to accountability, the chains of responsibility become real and relevant. Insight emerges through this exercise and is documented, discussed and reflected upon. Such a mechanism leads to important renewal, change and development in the field of action in question. Our work as the EU's independent external auditor helps to create and support this positive observer effect within the EU.



Auditing the legality and regularity of the NGEU – a strategic challenge for the ECA in the years to come

By Mariusz Pomieniski, Judit Oroszki and Paul Sime,
Financing and administering the Union Directorate

Source: EC/EU



Setting out strategic objectives is an important step to achieve clarity on the what an organisation has to do. However, an organisation also needs to be clear about how it wants to do it. Clearly both aspects coincided with the adoption of the Next Generation EU (NGEU) instrument. The what increased considerably while the how of auditing the new instrument contains a significant number of new and innovative elements. Mariusz Pomieniski, Director, Judit Oroszki, Principal Manager, and Paul Sime, Assistant to the Director, are directly concerned with providing assurance on the EU's finances, which now also include NGEU expenditure. They explain, as far as possible with the information to hand at this stage, what kind of strategic challenge and substantial task the ECA will face when it comes to auditing the NGEU instrument and providing assurance on it.

NGEU - over 40% budget increase to be audited

On 21 January 2021, the ECA College adopted the ECA 2021-2025 Strategy (*the Strategy*), shortly after the historic European Council agreement on EU finances in December 2020. Mid-February 2021, with the adoption of the Recovery and Resilience Facility (RRF), the Council finalised the process of setting up the €750 billion European Union Recovery Instrument, better known as the Next Generation EU – NGEU. The time proximity is not the only element linking the two documents. The new ECA Strategy has been significantly affected by the planned rollout of the NGEU. Its size and delivery model makes it a challenge for us as the EU's external auditors with the job of providing a Statement of Assurance (SoA) on NGEU expenditure and, of course, on the traditional EU budget, amounting for the current multiannual financial framework (MFF) to €1 074.3 billion for a seven year period.

Which features of the NGEU matter for the Statement of Assurance?

The Recovery and Resilience Facility will be the main implementing tool for the NGEU, with commitments totalling up to €672.5 billion over 2021-2023. It will provide up to €312.5 billion in grants and up to €360 billion in loans to support reforms and investments undertaken by Member States. To benefit from the RRF, Member States have to prepare national recovery and resilience plans (RRPs) with a coherent package of public investments and reforms. These reforms and investments are to be implemented by 2026. The plans should set out how the Member States intend to address effectively the challenges identified in the European Semester, particularly the 2019 and 2020 country-specific recommendations adopted by the Council.

Member States will have to include in their plans:

- a description of the proposed reforms and investments;
- the estimated cost of the proposed reforms and investments backed up by appropriate justification;
- the envisaged milestones, targets, and an indicative timetable for the implementation of the reforms and of investments to be completed by the end of August 2026 at the latest; and
- an explanation of the system to prevent, detect and correct corruption, fraud and conflicts of interest, including arrangements aimed at avoiding double funding from other Union programmes.

The European Commission will assess whether the justification provided by the Member State on the amount of the estimated total costs of the RRP submitted is reasonable and plausible. The Commission will also make sure that it is in line with the principle of cost-efficiency and is commensurate with the expected national economic and social impact. The Commission will assess whether the arrangements proposed by the Member State concerned can be expected to prevent, detect and correct corruption, fraud and conflicts of interest.

After the RRP are approved by the Council, the Commission will sign the grant and (potential) loan agreements with the Member State. In parallel - or after the signature of the grant and potential loan agreement - the Commission will also agree with the Member State on the operational arrangements. These arrangements will provide details of the payment schedules, details in respect of timelines, indicators for the milestones and targets, and access to underlying data and evidence to substantiate the disbursement claim. The arrangements will be an important element in our work. Unfortunately, at the moment of writing, we have no clarity about what they will look like in practice.

A Member State may request a disbursement on a bi-annual basis, following a 'satisfactory' completion of a group of milestones and targets, reflecting progress with several of the plan's reforms and investments. As we understand it now, the size of a specific instalment will not correspond to the estimated costs of the measures. The precise details of the payment schedules will be laid down in the operational arrangement signed with each Member State.

The Commission will have to assess the payment requests within two months. The key condition for the Commission's payment will be the achievement of the milestones and targets laid down in the RRP. The Commission will therefore have to make a judgement on whether - based on the documents submitted by the Member State or any other document the Commission deems relevant - the milestones and targets have been fulfilled 'satisfactorily'.

We do not know yet how the Commission will carry out its checks or what evidence it will ask for from Member States to prove the fulfilment of milestones and targets. Details on the milestones and targets will only be laid down in the operational arrangements and financing and loan agreements, signed after the approval of the RRP. It is worth underlining, however, that the Commission will not check the actual cost incurred – understandably, as there is no link between the payments from the EU budget and the costs incurred by the beneficiaries, the Member States.

The RRF will be implemented under direct management with Member States, which are the beneficiaries of EU funds. They are required to put in place an effective management and control system to make sure that the information on the achievement of targets and milestones, provided to the Commission with the payment request, is complete, accurate and reliable, and that the RRF only supports measures which comply with all applicable EU and national law.

The Commission will report in a number of ways on the implementation of the RRF:

- through a scoreboard displaying progress with the implementation of the RRP in each of the six pillars. This scoreboard will be the main performance reporting system of the RRF;
- in an annual report to the European Parliament and the Council, with information on the status of implementation of milestones and targets, and the status of disbursements and suspensions;
- in a review report on the implementation of the RRF, presented by 31 July 2022. This report will assess, in particular, the way the RRP contribute to the scope and general objectives of the RRF; and
- finally, after three years of implementation, the Commission will provide an independent evaluation report and an ex post evaluation report by end 2028.

The Commission will also report on the performance and regularity of the RRF spending (including the calculated risk at payment) in the Annual Activity Report of its Directorate-General for Economic and Financial Affairs (ECFIN) and in its Annual Management and Performance Report.

How to design the compliance audit of the RRF – a methodological challenge spelled out in the Strategy

The nature of our assurance engagement is defined by Article 287 of the Treaty on the Functioning of the EU (TFEU): we provide the SoA on the legality and regularity of the expenditure underlying the annual accounts (and, indeed, the RRF expenditure will be recorded in these accounts). The subject matter of our assurance audit will be, then, identical with our ‘normal’ SoA work: it will consist of the expenditure transactions of the given year.

Our new ECA Strategy recognises the challenge of providing assurance on a large instrument whose disbursement rules differ from the ‘traditional’ budget:

The next multiannual financial framework (MFF) 2021-2027 and the ‘Next Generation EU’ (NGEU) initiative will involve important changes and related challenges for us. This concerns in particular our assurance reports, namely the Statement of Assurance and our Annual Reports. To this end, we will continue to develop our audit approach and use available data and information, which will allow us to continue providing strong assurance, based on our Treaty mandate and in full accordance with international public-sector audit standard.

What kind of assurance should we give for the NGEU – a key question

According to the auditing standards, we can choose from two types of assurance: reasonable or limited. Our opinion on the legality and regularity of ‘traditional’ expenditure provides reasonable assurance on the spending of the EU budget. It would not come as a surprise, then, if we are expected to do the same for the RRF. However, regardless of our wishes and stakeholders’ expectations, a lot will depend on what is feasible. The feasibility of providing the same type of assurance on the RRF as on the MFF will depend on the availability of information and the technical possibilities with regard to estimating the financial impact of non-achievement of targets/milestones. And also on the resources that the ECA will have available to audit this more than 40% increase in EU funds for which it will have to give audit assurance.

We usually draw assurance from a combination of two sources: control systems and substantive testing. At the time of writing this article, the Commission had not yet defined its control strategy and we have not seen the descriptions of the Member States’ management and control arrangements in the RRFs. A further challenge for our assessment of the control systems will be that the RRF provides for Member State-specific plans and there are no harmonised system requirements. So we can expect the statement of assurance on RRF expenditure will have to be based on the substantive testing.

Applying audit criteria – achievement being the new compliance element

To give our Statement of Assurance we must first form an independent assessment of whether a given subject matter is in compliance with applicable laws and regulations. The general audit objective for an audit of the legality and regularity of underlying transactions is to determine whether they are legal and regular in *all material respects*. In the case of the RRF, providing a clean opinion would mean stating that less than 2% of RRF expenditure had been made on the basis of ‘unsatisfactory’ achievement of milestones and targets. Both the qualitative (satisfactory/unsatisfactory) and the quantitative (2%) elements of this statement will most likely pose practical problems.

Talking about the *achievement* (or not) of the *milestones/targets*, the major risk for the feasibility of our assurance audit is the quality of the milestones and targets themselves. If they are only vaguely defined, we could face a situation where they are not fully auditable. If we are sure that they are auditable, we will have to decide whether the information available at the Commission is sufficient for us to conclude on the legality and regularity. The Commission’s check will be based on justification provided by the

Member State, which may not always allow us to confirm that the targets/milestones had been reached in reality. This could be the case – particularly – for investments, for which targets will probably be linked to certain tangible deliverables, i.e. number of kilometres of rail built, number of square meters of renovated building, number of beneficiaries of a particular investment scheme, etc..

Source: NicoElNino/Getty Images



As far as the *financial impact of irregularities* is concerned, in the framework of our SoA audits we highlight which non-compliance with legal requirements - if known before the payment - would have had an impact on the Commission's or other paying authorities' decision to pay. We make a distinction between 'conditions for payments' (non-compliance with them has a direct financial impact) and 'other compliance issues' (these do not have a direct impact on the payment made but imply a financial risk and/or could lead to financial corrections).

For the RRF, *the key condition for the Commission to make the disbursement is the achievement of the milestones and targets* for the reforms and investments agreed in the RRFs. This 'achievement' seems to be the 'condition for payment' as understood by our methodology. Needless to say, Member States will have to make sure that spending from the RRF complies with all relevant EU and national rules. The payments or their amounts, however, will not depend on this criterion.

Similarly, there will be several other legal requirements included in the RRF regulation and potentially in the grant/loan agreements and operational arrangements. For example, RRF spending will need to comply with the application of horizontal financial rules for the RRF, the 'do no significant harm' principle, additionality and complementarity principles and provisions on sound economic governance, etc. However, these principles will not be 'conditions for payment.' As a result, we can expect that we would consider as 'errors with financial impact' only the amounts accepted and paid by the Commission for which we demonstrate that the corresponding milestones or targets had not, in reality, been fulfilled. Provided we are able to reach such conclusions on the basis of the available information, the next challenge will be how to estimate the amounts of money spent despite a 'non achievement' of targets/milestones, so non-compliance.

Due to the nature of the instrument, a quantification similar to the one used for the MFF might not be the most appropriate way to assess the seriousness of the non-compliance identified. This is because, for the MFF, we can clearly link the error to the amount paid - mostly on a cost reimbursement basis. However, for the RRF there will most likely be no direct link between the amounts disbursed and the cost estimates underlying the milestones and targets fulfilled. It is also doubtful, whether individual milestones/targets will be assessed, and paid for, by the Commission separately.

We could possibly use a quantification similar to the system proposed by the Commission. Due to the performance-based nature of the RRF, the Commission's ex post controls will aim to verify that the payment conditions were met, most importantly the achievement of milestones and targets. If ex post controls by the Commission reveal that milestones or targets were in fact not met, the Commission may recover a proportionate amount. We do not know yet how robust and 'useful' the Commission methodology will be.

Providing audit assurance and addressing accountability arrangements – two tracks on the same path

The technical possibilities discussed above will have to be a part of the ECA's decision-making for the best approach to designing the annual audit of the RRF. Key for this will be whether the ECA will be in a position to establish a robust and defensible method for linking the non or partial achievement of milestones/targets to expenditure, i.e. to estimate the financial impact of errors it detects. This crucial element will also influence the feasibility of providing reasonable assurance on RRF expenditure.

In the 'minimum' option we would be using the information available to the Commission and provided by the Member States. We would conclude overall on the Commission's assessment of whether milestones and targets have been fulfilled and possibly on the Commission's assessment of compliance with the eligibility period.

Another option is a combination of yearly and rotational audits of Member States, testing a sample of milestones and targets, with checks down to the level of the final recipient. This would require checks directly in Member States, going beyond what is available at the Commission.

The usefulness and cost/benefit ratio of all options will largely depend on the precision of the agreed milestones/targets and on the quality of the information demonstrating their achievement. After the Commission completes its preparatory work and Member States submit their plans, we will be able to assess which approach leads to the most efficient assurance engagement and how to strike the best balance between the SoA and other audits of the NGEU.

One thing remains obvious: our audits of the NGEU and the RRF will be at the centre of interest of the European Parliament and the Council, our institutional stakeholders, for the years to come. This inevitably makes them a key strategic challenge for the ECA. In this context, it is relevant to note that the introduction of the NGEU is not only relevant to the ECA's strategic goal on *providing strong audit assurance, in a challenging and changing environment*. It also matters to both other strategic goals on *improving accountability, transparency and audit arrangements across all types of EU action* and on *targeting our audits on the areas and topics where we can add most value*.

EU citizens need to be able to trust their external auditor to provide insight into and transparency on what works well and what not, also when it concerns such a far-reaching and innovative instrument as the NGEU. As the EU's independent external auditor, we will do our utmost to deliver what is *feasible*, and what is *reasonable*.



Auditing the unforeseen: ECA action on COVID-19 and crisis measures taken

By Kamila Lepkowska, Directorate of the Presidency



Source: Tomas Ragin -Getty Images /
WolfBlu -Pixabay

What do you do as a public auditor if you can no longer obtain your audit evidence in the traditional way? Or if the topic you had planned to audit appears to become obsolete in the wake of new events dominating everybody's life? The COVID-19 pandemic has had considerable effects on many professions, including public audit. Kamila Lepkowska is a senior officer working on strategy, foresight, planning and performance management, and below she provides insights into how the COVID-19 pandemic has not only changed the way ECA auditors work but also how it has changed the focus of the ECA's work.

COVID-19 pandemic – not a 'normal' crisis to audit

While auditors are not among those fighting this current pandemic in the first line of defence, the COVID-19 crisis is affecting us directly and requires a comprehensive response. Scarceness of critical resources is a typical feature of such crises, but nevertheless, more than ever our institutional stakeholders and the general public expect us to provide efficient and timely scrutiny of the crisis managers' work. At the ECA we have gathered a great deal of experience in auditing responses to crises: the economic and financial crisis and the migration crises have been in the focus of our work in the last decade. The response to COVID-19 will certainly dominate in the years to come with the first important steps already being taken.

The uniqueness of the COVID-19 crisis lies in its immediate and multi-dimensional impact. It is not just another topic to audit. The breakout of the pandemic meant deep organisational changes happening from one day to the next, on top of the need to adjust the audit process for virtually all existing tasks and provide audit assurance for new actions by the EU. The tremendous work done by the IT, HR and medical services, and other departments, to ensure the smooth functioning of the ECA during the protracted period of remote working deserves a separate analysis: this article focuses on our professional tasks relating to audits, reviews and opinions.

Immediate reaction: reviews and opinions

The COVID-19 pandemic triggered an unprecedented and complex response from the EU. There are many aspects that make this process distinctive: the number of institutions involved, the amounts of finance at stake, or the range of policies concerned. It is not my ambition to give an overview in this article of what the EU has or has not done in response to the COVID-19 crisis. One major reason for not doing so is that the ECA did precisely that in its first reaction to the crisis. In recent months, we have published two in-depth reviews of the EU's actions, focusing respectively on the [economic response](#) to the COVID-19 outbreak and [public health](#). These two reports, although not audits *per se*, were designed to map all key actions taken by the EU (and, in some aspects, by the Member States) at the early stages of the pandemic and to identify the main underlying risks (see **Figure 1**). They offer interested citizens a comprehensive analytical picture of the EU crisis reaction, highlight risk areas for the management of the crisis and constitute a basis for our in-depth audits in the future.

Figure 1 – Key risks and challenges identified in the ECA's reviews of the EU's COVID-19 actions

Review 06/2020 Risks, challenges and opportunities in the EU's economic policy response to the COVID-19 crisis

Member States' fiscal packages and exceptional banking credit supply trigger new challenges for the EU authorities responsible for surveillance of fiscal positions, the internal market, labour markets and the financial sector.

The effectiveness of the newly proposed recovery facility risks being impaired if its financial structure is not adequate, the recovery plans do not focus on growth-enhancing reforms and investments, the implementation is not timely, the level of absorption is low, co-ordination of measures at all levels is weak, planning and monitoring is not based on sound indicators, or accountability is fragmented.

The Commission will face the challenge of managing the financial risk of large scale EU transactions on capital markets.

Review 01/2021 The EU's initial contribution to the public health response to COVID-19

The EU focused on supporting Member State action and coordination (through the Health Security Committee), facilitation (by creating a joint procurement framework) and information gathering/risk assessment (through the European Centre for Disease Prevention and Control - ECDC). The pandemic represented an unprecedented test of these roles, as illustrated by the limited use of joint procurement, and the challenge the ECDC faced with data collection and analysis.

The procurement of medical supplies for the pandemic was a challenge. EU-level procurement of protective equipment was limited. The Commission's tools allowed for dialogue and sharing of information with Member States and industry on the demand and supply of medical equipment, but Member States made limited use of the Commission's matchmaking tool for the equipment's procurement.

The successful use of vaccines may be put at risk by COVID-19 related disinformation and its negative effects on public health, notably through vaccine hesitancy.

Next to the reviews, another important dimension of our immediate response to the EU's handling of the crisis was issuing opinions on COVID-19 related EU legislation. Seven out of the ten opinions we published in 2020 concerned legislation amended or established as a reaction to the COVID-19 crisis (see **Box 1**). We have issued the opinions following urgent requests by the Parliament or the Council and highlighted in them risks related - among other things - to the design, monitoring and accountability arrangements of the crisis instruments.

Opinion 6/2020 had a particularly broad scope and novel nature, as it covered the legal basis of a newly established crisis-response mechanism: the Recovery and Resilience Facility. The facility offers not only an unprecedented amount of over 600 billion euros in additional funding, but also a new spending logic and new financing mechanisms. These innovative features offer new opportunities, but also entail risks, which we highlighted in the opinion. To address them, we have proposed a number of improvements to the draft legal framework. Among other things, they were aimed at ensuring *additionality* and *coordination* of the RRF with other EU funds, linking more closely the RRF's objectives of recovery and resilience with the allocation keys, reducing the administrative burden and strengthening accountability. The final text of the RRF regulation brought improvements in particular with regard to accountability and audit rights, marking a direct impact by our opinion.

Box 1 – COVID-19 related opinions of the ECA

Opinion No 3/2020 on amending EU regulation for the European Structural and Investments Funds' use in response to the COVID-19 outbreak

Opinion No 4/2020 regarding the proposed REACT-EU regulation and Common Provisions Regulation governing the ESI funds

Opinion No 5/2020 on the Commission's 2020/0006 (COD) proposals of 14 January 2020 and of 28 May 2020 for a Regulation of the European Parliament and of the Council establishing the Just Transition Fund

Opinion No 6/2020 concerning the proposal for a regulation of the European Parliament and of the Council establishing a Recovery and Resilience Facility

Opinion No 8/2020 on the Commission's 2020/0100 (COD) proposal for a Regulation of the European Parliament and Council on the public sector loan facility under the Just Transition Mechanism

Opinion No 9/2020 accompanying the Commission's proposal for a Decision of the European Parliament and of the Council amending Decision No 1313/2013/EU on a Union Civil Protection Mechanism

Designing a comprehensive response for the medium term

As our audits typically scrutinise past action, the ECA's first reaction to the crisis was necessarily in the form of non-audit products - opinions and reviews. However, in parallel, we have started preparing a medium-term response aimed at comprehensive audit coverage of the EU's COVID actions. The [ECA's strategy 2021-2025](#) - adopted in January 2021 - recognises this objective under Goal 1, where the ECA underlines its full mandate 'to audit all EU institutions and bodies set up by the Treaties, but also all intergovernmental structures that are of key relevance to the functioning of the EU.' Under Goal 2 of the strategy, the ECA identifies the COVID-19 response as a challenge, particularly for public finance, and explicitly commits 'to ensure, through a multi-annual programming approach, a good coverage of new initiatives such as the management of the 'Next Generation EU (NGEU).'

The ECA's 2021+ work programme clearly constitutes a step in the direction set by the strategy. In 2021, one in four audit task to be started will be dealing with the EU's response to the COVID-19 pandemic and the implementation of the NGEU initiative. This means that the pandemic will be a crosscutting topic addressed by all ECA chambers from the perspective of their policy responsibilities. A number of the specific themes to be audited focus on issues directly affecting EU citizens in their everyday lives ("Passenger rights during the COVID-19 crisis"; "Food security during the COVID-19 pandemic"; "Free movement of people and functioning of the Schengen area"; "Procurement of vaccines and other COVID-related health measures").

On the other hand, we have also planned comprehensive analyses of the EU's crisis instruments, such as the Coronavirus Response Investment Initiative (CRII) and the national recovery and resilience plans within the RRF and the European Semester. When launching these audits we will not start from scratch: the starting point will be the analytical work and data collection we have done for the two reviews already published about the COVID-19 response and using the dedicated knowledge management network activated shortly after the outbreak of the pandemics.

Challenges of remote auditing

A feature, which makes the current crisis distinctive from an audit office's perspective, is the fact that it not only creates a new priority in the selection of our audits, but also affects any ongoing audit work. The main and obvious obstacle is that we have very

limited possibilities to carry out audits on-the-spot, due to tight travel and public health restrictions. These limitations affect verification of physical and documentary evidence, as well as the possibilities of interviewing auditees and stakeholders personally. They are hitting us particularly hard as EU auditors, as by default we do our work across the (currently partially closed) borders. Perhaps paradoxically, the impact of these limitations is increasing with time. In the first months following the first lockdowns, we could finalise our audits based on evidence already gathered and using the contacts established in pre-corona times. After almost a year, we need to carry out certain audits in a fully digital manner. In this context it is worth noting, however, that since the last summer and autumn our auditors managed to carry out a limited number of audit missions, whenever digital means proved inadequate to obtain satisfactory evidence – which was particularly the case for financial audits.

As resorting to a fully digital mode of auditing is still a novelty for most of us, reflection and discussion on this issue is ongoing, yet one principle is very clear: enhanced use of digital tools cannot lead to compromises on the soundness of evidence. The ECA's methodological guidance leaves no doubts about this: 'In times of crisis or emergency auditors are still expected to conduct audits in full compliance with audit standards, even under challenging working conditions. Balance is needed between ensuring flexibility in working arrangements, while minimising risks to audit quality.'

In practice, the auditing standards require us to be creative in the search for new technical solutions - our auditors have had very good experiences in this respect using new platforms for data exchange and video-conferencing tools - but also to be realistic in assessing their reliability and sufficiency. As auditors we should not and do not pretend that digital means can fully replace on-the-spot audits. This is obvious for physical inspections, where just analysing investment charts we might neglect certain important elements of the context. Yet, the same can apply to interviews with stakeholders: sensitive topics are more likely to come across in the face-to-face setting of a small meeting in person, rather than a large video conference.

There are numerous situations where digital audit will do perfectly well and we are considering this aspect as an important criterion for the selection of audit tasks to be carried out in the very next months. However, where digital means reach their limits, it is an auditor's duty to be transparent about it and include a clear scope limitation in the audit report.

First quick steps on a long path

Auditing a crisis - or rather a reaction to it - is a great challenge for auditors. It involves overcoming technical difficulties, but above all a balanced approach to assessing the work of those managing the crisis. On the one hand, in a crisis their decisions matter more than ever with regard to people's lives, and possibly the incentives to take shortcuts in procedures and controls are unusually high. The reasons are sometimes very valid, but the emergency and rapidly expanding budgets can also pave the way to fraud. All these circumstances call for more intensive audit scrutiny instead of less. While trying to live up to this expectation, we need to keep in mind, however, that the crisis response mechanisms have been developed under extreme pressure and, at EU-level in particular, their success depends on densely intertwined networks of cooperating institutions and many uncontrollable factors. This in turn calls for great caution in attributing responsibility for flaws in the design of instruments or for missed objectives.

Overall, it seems fair to say that the ECA's first reaction to the COVID-19 crisis was fast and efficient. We took the first decisions about amending the work programme within weeks and published the first products within a few months of the outbreak of the pandemic. The challenge for the next months and years will be to come up with balanced audit findings and recommendations, which support the work of those coordinating and managing the crisis, while promoting accountability and a fast learning curve in the design, execution and impact of the measures taken and those still ahead of us.





Director's Cut

A strategy focusing on both the what and how, vested on a firm set of values

Interview with Martin Weber, ECA Director 'Investment for cohesion, growth and inclusion'

By Derek Meijers and Gaston Moonen



Martin Weber

Until 30 March 2021, Martin Weber was the Director of the Presidency at the ECA. Strategy development, programming and performance measurement are part of the three core portfolios that fall within the remit of this directorate. Consequently, he had a substantial role in initiating, coordinating and drafting the ECA 2021-25 Strategy. After successful completion of this project, Martin has moved on and started in his new job as the Director for 'Investment for cohesion, growth and inclusion.' We interviewed him about the process of developing this strategy, his views on the new strategic direction taken by the ECA, and about the more than four years during which he headed the ECA's Directorate of the Presidency.

A new strategy in times of rapid change

When asked about the biggest differences between the new strategy and the previous ones, Martin Weber's first points to the different context: 'We live in times of rapid technological, economic and societal changes, and these are developing much faster than in previous periods.' Martin adds that in recent years the EU has begun playing an increasingly visible role in the everyday life of citizens. 'Yet, at the same time, European integration is politically more contested. It is more present and we, through our work and reports, obviously contribute to this debate about the role the EU is playing.'

He also noted that over time there had been a learning process concerning how to develop a strategy. A key issue in this regard has been the recognition that we have to decouple the debate about strategic goals as such from the operational aspects of implementation: 'From the beginning, we had the idea of first focusing on the key strategic ideas. Once we had reached agreement on our strategic goals, we then turned to the means necessary to achieve these goals. And the even more concrete actions to achieve these goals would be specified in a more flexible form, in annual implementation plans. This approach clearly differed from the 2018–2020 strategy.' He explains that adding this additional flexibility was necessary, as the duration of the new strategy is longer, increasing from three to five years. 'And because of the rapid pace of changes, that will continue in the years to come.'

Participative and inclusive process

Looking back at the strategy process, Martin praises the more inclusive and more participative approach that was taken when developing the 2021-2025 ECA Strategy. 'Thanks to this collaborative effort, we now have a strategy that is more likely to be owned by management and staff. Incidentally, this has also led to a strategy which is more oriented towards the outside world and the contribution that we can make through our audits to the further development of the Union.'

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... we now have a strategy that is more likely to be owned by management and staff.

Developing the strategy based on a participative and inclusive process was a particular challenge in the year 2020, due to the COVID-19 pandemic and the resulting restrictions. 'This strategy was constructed on contributions from many different people at many different levels and coordinated by my directorate, where a dedicated team played a central role. What we achieved was facilitating interaction between the different levels of the organisation and opening up the possibility to contribute and to engage in a strategic conversation about the direction our institution should go in the upcoming years.'

Martin notes that all contributions were taken very seriously and were discussed, which has led to a strategy that can be considered the brainchild of the entire ECA. 'And this is essential, as the strategy matters for all of us, for Members, for managers, for audit as well as non-audit staff. This was the whole point of the exercise.' However, when asked about the main impact of the strategy, Martin looks beyond the ECA: 'A successful implementation of this strategy will matter most for our stakeholders, for the European Parliament and the Council and also national parliaments, and not so much for us internally. This is because the strategy explicitly aims at ensuring that they will get better and more relevant information from us on how the EU reaches its objectives and targets and spends its money.'

Turning ambition into action – a matter of ownership

One of the issues of any strategy is often not the 'what' but the 'how' - the challenge being how to translate a high-level strategy into concrete actions. For the ECA this means, as far as its audit work is concerned, distilling a work programme and audit tasks from its strategy, something many organisations tend to struggle with, including other public audit bodies. Martin: 'Asking how the ECA ensures a smooth translation of strategic goals into action is asking how we will implement our strategy, which is indeed the real challenge.'

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... how we will implement our strategy, which is indeed the real challenge.

He continues with an example: 'We have four priority areas and we have presented the 2021+ work programme according to these priority areas. But as long as it remains just another way of structuring our work, nothing has been achieved. Therefore, we need to go a step further and see how our strategic priorities can be built into a multiannual stream of audits that go in the same direction, which have similar and clear messages, are constructive and help to make things better.' He links this to the need for proactive and longer-term thinking. 'We therefore need to stay focused on connecting the dots between individual audits in a certain area.'

All the more relevant since, as Martin points out, the [peer review of the ECA's previous strategy](#) had identified difficulties in implementing the strategic objectives, the issues that needed to be addressed. 'Our peer reviewers pointed out that initially, back in 2017, there basically was no real framework agreed for implementing the 2018-2020 strategy.'

To prevent such a scenario from unfolding during the current strategic period, Martin refers again to the decoupling of strategic ambitions from the operational aspects of implementation, together with the additional flexibility that will come from annual implementation plans. Moreover, he explains that the ECA 2021-25 Strategy is due to be reviewed twice, once mid-term in 2023, internally, and a second time by external peer reviewers towards the end of the strategy. 'Especially the mid-term review that should be carried out in 2023 will be important, in case we want to make changes, which is very likely given these rapid changes to our environment. Then, the external peer review following that will provide input for our next strategy.'

Ownership of implementation is another important issue that Martin raised repeatedly in his capacity as Director of the Presidency. 'In the end, ownership of and engagement with the strategy will only come through implementation. Unfortunately, in 2021, the first steps towards implementing the new strategy will take place in a virtual way. This obviously presents us with several challenges, as the momentum is not the same and because it is more difficult to connect with individuals and have an in-depth exchange in a digital environment.'



... ownership of and engagement with the strategy will only come through implementation.

Change at the helm

Martin Weber headed the Directorate of the Presidency for more than four years and, on 1 April 2021, took on his new duties as the Director for 'Investment for cohesion, growth and inclusion,' swapping seats with Gerhard Ross, who moved from that directorate to become the new Director of the Presidency. Martin: 'job of Director of the Presidency is particularly interesting and enriching because of its horizontal nature.' He refers to the different strands of responsibility that fall within the Presidency's remit, such as strategy, programming, performance and risk management, but also institutional relations with Parliament, Council, Commission, and national parliaments to some extent, as well as the Member States' supreme audit institutions (SAIs) and other SAIs all over the world. Plus responsibility for the ECA's external communication activities, and in particular relations with the media.

He observes that the Presidency deals with an extremely broad and diverse range of tasks. 'It really changed my perspective. You can describe it as the ECA's window to the external world. Everything that goes out and comes in is somehow connected with it. In addition, the Presidency is a tremendous Directorate, thanks to the bright and dedicated people that work there. These two elements create an environment in which many good ideas can blossom – but then it still requires dedication, determination and stamina to get the job done.'



You can describe it as the ECA's window to the external world. Everything that goes out and comes in is somehow connected with it.

Martin adds that he will definitely miss the dynamic environment that the Presidency offers. 'Dynamic because of the nature of the activities, whereas in an audit chamber the focus is more long-term with audits that take up to a year, sometimes more.' Another aspect he will miss is working with various colleagues in other EU institutions as well as with the community of SAIs, both from the EU and other countries.

Martin is happy that the Presidency offered him the possibility to initiate, launch, and contribute to the development of many new innovative products, both within the ECA and in collaboration with other SAIs. 'Take, for example, our briefing papers, the new communication approach for our audits, the audit previews, the 'Public Audit in the EU' handbook and the online repository, the campaign for the new Members of the European Parliament (MEPs), the Audit Compendiums, and, last but not least, the ECA Journal, which has undergone significant development and professionalisation over the past four years!' With a smile, he adds that this knowledge will change the way he will approach his upcoming responsibilities in the Investment for cohesion, growth and

inclusion Directorate. 'Because I know now how to make a good use of the resources in the Presidency!'

Being more responsive to stakeholders' needs

When asked about the biggest changes during his time at the Presidency, Martin immediately refers to the ECA following a more strategic approach and, at the same time, becoming more responsive to stakeholders' concerns. 'How we develop and prepare our audit ideas, and how we select the best ones, the ones we will actually carry out, that process changed considerably.' He explains that the ECA has moved from a de-centralised, mainly bottom-up and fragmented approach to something more structured, strategic and centralised. 'I think there is now a reasonable balance between bottom-up and top-down. And a particular innovation I am proud of is that we have introduced openness to the external world, to our external and institutional stakeholders.'

How we develop and prepare our audit ideas, and how we select the best ones, the ones we will actually carry out, that process changed considerably.

Martin elaborates a bit further: 'Of course, we previously had an open ear to stakeholders. But in the current set-up we are listening to their ideas and suggestions in a much more systematic way.' He explains that five years ago the ECA received around twenty audit ideas from the European Parliament (EP) each year. However, a systematic, joint list of suggestions from all European Parliament committees, such as the one which is now presented each year by the European Parliament's Conference of Committee Chairs (CCC) did not exist at that time. 'If you compare that situation with this year, in which we have received over 160 suggestions from more than 20 different EP committees, I would say that is a considerable improvement. And, something of a novelty, this year, for the very first time, we also received a joint letter from the Council with audit suggestions, signed by the ambassadors of ten Member States.'

Martin underlines that this is an important change compared to the past, and a clear result of the efforts made by ECA President Lehne and his team at the Directorate of the Presidency in their dealings with the Council. 'Generally, all our reports are discussed at the different working levels of the Council. But now, for the first time, we have started an exchange on our work priorities and how we can best support the Council in its work. This is an important step forward.' At the same time, he considers that the ECA can still do more to be heard at Council level, and in particular at ministerial level. 'But this is for the next team to deal with,' he adds with a smile.

Parliamentary interest on the rise

Martin Weber stresses that this is a joint success for all Members and staff. Most importantly, however, this progress results from the fact that the ECA is publishing work that is of increasing interest to its institutional stakeholders. 'There clearly is more interest from the side of the EP. They have a need for the kind of solid, factual, independent information that our reports provide. Our intensified exchanges with the EP committees help us to select audit topics and publish reports that are timely and relevant to them. And from another point of view, we are also better at *selling* our reports and other products that are not the result of their own suggestions, which stimulates MEPs to look for other useful ECA publications.' He observes that his team and the ECA at large have worked very hard over the past few years to make this change happen. 'I am happy we have managed to achieve this snowball effect.'

Our intensified exchanges with the EP committees help us to select audit topics and publish reports that are timely and relevant to them.

As one of the elements that contributed to this result, Martin identifies the centralisation of the process of exchange with the EP by the Presidency. 'We structured it and made it more strategic. One key change was investing a lot of energy, effort and time into opening up. That was energy spent both internally, to convince people that this was a good idea, and externally, to convince them that it was an interesting and important thing to do. And, importantly, we also needed to convince people this would not interfere with our independence as the EU's external auditor.'

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This issue of independence is a two-edged sword, Martin explains. 'For us, but certainly also for parliamentarians, as they do not want to interfere with our independence either. It is a bit of a balancing act, but I am convinced that we are on the right track.' Then, adding with a laugh: 'Now we are even a bit overwhelmed by this success, because we simply do not have the resources to follow up all the input and suggestions for audits we receive from the EP!'

Martin sees a need to manage expectations as to what the ECA can actually generate in terms of audit output. 'We have the capacity to produce around 35 to 45 audit reports each year, in a normal year. If you have so many external requests already plus the internal suggestions that are put forward by auditors and by our ECA Members, the selection and prioritisation of audit ideas becomes an even more important aspect.' He observes that this means the ECA must focus on what matters most as it is simply impossible to cover all the relevant and interesting issues. 'This is a difficult reality our institution has to deal with. But fortunately – for the EU – our staff is very dedicated and manages to maintain a very high level of production of quality reports, again and again.'

Branding the ECA

Martin notes that the interest in ECA publications is also growing at the level of the Member States, in particular in the national parliaments. 'This is mainly due to the fact that we have dramatically increased our media outreach compared to the previous strategic period, which you can see in our [2020 annual activity report](#).' He underlines that there has been a five-fold increase. Moreover, the increase in media interest cannot be measured in absolute numbers alone, but there is also an increase per report. 'You can safely say that our communication activities are now operating at a completely different level compared to the previous strategic period that ran from 2018 to 2020. The next step will be to work on the "ECA brand" and what this implies for our communication activities.'

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Just as the ECA has made efforts to improve the uptake of its work at the level of the EU institutions, it has increasingly undertaken action to better target its audience in the Member States. Martin: 'Clearly, the ECA has become more relevant, more visible. At least in Brussels. And, although our presence in the Member States can still be improved, I am not unhappy with our achievements to date. Something that definitely contributed to that were the visits to the Member States undertaken by President Lehne, which he started in 2017 during his first term. It has helped to put the ECA more firmly on the radar of our institutional and Member State stakeholders.'

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Clearly, the ECA has become more relevant, more visible.

Martin points out that the new strategy has also been developed based on the idea that there is still a huge potential the ECA Members can tap into to promote the institution in their home countries. 'This would be an important development and we can benefit from the extensive local knowledge and networks that our ECA Members bring to the ECA. However, they will obviously only succeed in raising more interest in our work at the national level if our reports are relevant for national governments and parliaments.' He concludes that in the end relevance is the key issue. 'And this can only be achieved through selecting the right topics to audit. Which brings us back to audit selection and the multiannual strategy as such – it is important that we focus on several levels, at several moments in time, on the issues which matter.'

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Preparing for future challenges

Martin believes that efforts to increase the relevance, impact, dissemination and uptake of the ECA's work are necessary, if not crucial, especially in the context of an ever more complex European Union. 'Take for example the EU's response to the COVID-19 crisis and the creation of the 'Next Generation EU' package. These have enormous consequences for the functioning of the EU. The amount of money involved here has grown to an unprecedented level. But during the pandemic Member State governments have also

entrusted the EU with new responsibilities, in particular in the area of public health.' He argues that, in parallel, the need for accountability and transparency has increased considerably. 'Which is precisely why it is of central importance for us to have a clear strategy and a clear commitment and approach towards auditing Next Generation EU, and to be aware that we will need to deliver fast if we want to stay on top of things!'

Martin sees auditing the Next Generation EU instrument as the main strategic challenge that the ECA will need to take on in the coming five years. 'At the heart of the Next Generation EU, you have the Recovery and Resilience Facility, which will pay more than €670 billion in loans and grants to support reforms and investments undertaken by Member States to mitigate the economic and social impact of the COVID-19 pandemic.' These spending programmes are aimed at making European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions, and they will have far-reaching financial implications. 'NGEU is not only very large in financial terms, it is also a one-off and temporary initiative. And it uses very innovative ways of financing which differ from normal delivery approaches. In turn, this creates new risks that the ECA must address in its audit work.'

“ NGEU is not only very large in financial terms, (...) cing which differ from normal delivery approaches. In turn, this creates new risks that the ECA must address in its audit work .

At the same time, Martin also sees opportunities, as the design of these new instruments will require ECA auditors to take a more Member State-specific, performance-based and qualitative approach to assessing achievements. 'That will raise several questions about how to organise ourselves and how, from the methodological point of view, to carry out the audit work.' Against this background, he recalls the need to carry out the work in accordance with professional standards. He finds it only logical that, for the first time in more than ten years, the ECA College has decided to ask for additional resources: 'It is obvious we will need more hands on deck.'

“ ... It is obvious we will need more hands on deck.

It's all about values

Another strategic challenge for the ECA that Martin sees on the horizon is the increasing politicisation of EU financing. 'Let me give two examples of this. They relate to the NGEU - again - and the rule of law. In both cases, we are now working with regulations in which the final decision is no longer taken by the Commission alone.' He points out that in both cases the procedure explicitly foresees that the Council gets involved in authorising the disbursement or blockage of funds.

'Traditionally, what happened is that, every seven years, you had a political debate when the Member States negotiated the new multiannual financial framework, the MFF.' Then, laughing, 'And make no mistake: an important argument in favour of a multi-annual budget in the EU context has always been that nobody wanted to have such a fight every year!' Once the MFF negotiations are successfully completed, the Commission can implement the MFF, and there is an ex-post scrutiny procedure in which the EP, together with the Council, can grant discharge to the Commission (or not).

'Now, in parallel, there is a different process for the NGEU. To put it simply, a Member State declares, the Commission makes an assessment of the progress made in meeting milestones and targets and pays, but there has been also a comitology procedure added through which the Council needs to give its consent. On top of that, the Commission's assessment is bound to be more of a qualitative nature. So it is also a more judgemental approach than for the MFF.' Here he sees potential difficulties and the risk of delays. 'This means, but I am not saying this will happen, that we may end up with a scenario in which the decision on whether or not the money can flow could be passed up to the European Council, to the heads of State.'

“ ... the Commission's assessment is bound to be more of a qualitative nature. So it is also a more judgemental approach than for the MFF.

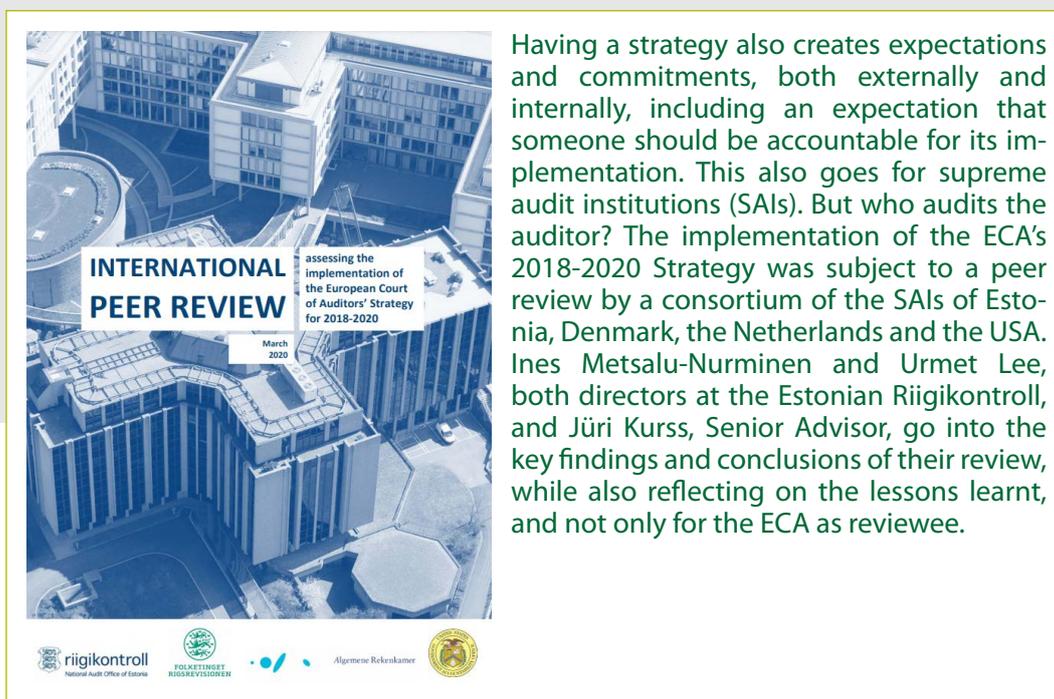
Overall, Martin Weber believes that the EU has taken a historic step forward in December 2020, and a step that goes beyond financial parameters only. However, this decision also entails considerable risks regarding the efficiency, transparency and accountability of the EU's financial management and its budgetary decision-making process. In his view, it is therefore particularly relevant to note that the ECA has committed itself in the 2021-2025 Strategy to providing assurance on all types of EU financing, including the NGEU. 'Despite the fact that the ECA may get caught in the middle of a political debate.'

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the ECA may get caught in the middle of a political debate.

He concludes: 'And this is why stating our values in the 2021-2025 Strategy is so important: independence, integrity, objectivity, transparency, professionalism. We will need to show in the coming years that we live up to these values!'

Peer Review of the ECA's 2018-2020 strategy: main conclusions and lessons learnt

By Jüri Kurss, Urmet Lee and Ines Metsalu-Nurminen, National Audit Office of Estonia



Having a strategy also creates expectations and commitments, both externally and internally, including an expectation that someone should be accountable for its implementation. This also goes for supreme audit institutions (SAIs). But who audits the auditor? The implementation of the ECA's 2018-2020 Strategy was subject to a peer review by a consortium of the SAIs of Estonia, Denmark, the Netherlands and the USA. Ines Metsalu-Nurminen and Urmet Lee, both directors at the Estonian Riigikontroll, and Jüri Kurss, Senior Advisor, go into the key findings and conclusions of their review, while also reflecting on the lessons learnt, and not only for the ECA as reviewee.

Reviewing three of the four goals

The ECA's strategy for the period 2018-2020 focused on fostering trust in the EU and providing insight into the main challenges the ECA was facing - a good starting point for any strategy. There were four strategic goals in total¹: each of the strategic goals entailed strategic objectives which had to be achieved by actions set out in the Action Plan.

In September 2018, the ECA invited the supreme audit institutions (SAIs) of Estonia (leading team), Denmark, the Netherlands, and the United States of America, to review the progress made in implementing its Strategy for 2018-2020 with three of the four goals. The [Peer Review report](#) was finalised and published in March 2020 and is available on the ECA's website.² In this article, we summarise on behalf of the Peer Review team the main outcomes and some lessons learnt.

Key conclusions and overall recommendations in a nutshell

Our report is structured so that at first we present an overall assessment of progress made in implementing the strategy so far and then of aspects which could be improved. Overall, we concluded in our report that the ECA had made progress, although to varying degrees, with implementing its strategic goals. We also noted that a clearer strategic focus and articulation of links between goals, activities and the expected impact, could have facilitated even greater progress.

We start with the most future-oriented parts of the report. Arguably the most valuable sections of the Peer Review report deal with suggestions for developing the next strategy. There we identified a number of cross-cutting issues and proposed recommendations to make strategy development more effective.

1 Goal 1: Improve the added value of the Statement of Assurance (SoA) in the context of today's EU financial management; Goal 2: Increased focus on performance aspects of EU action; Goal 3: Get clear messages across to our audiences. The fourth goal, which remained outside the scope of the peer review, was gearing the ECA's organisation to its product.

2 https://www.eca.europa.eu/Other%20publications/2020_PEER_REVIEW/2020_peer_review_EN.pdf

From multiple key lessons learnt and recommendations, we would like to highlight the following ones which we thought would be particularly helpful in supporting the ECA's strategic management:

- we proposed that the ECA should agree on its mission and role in light of external challenges and trends facing the EU, as well as the impact it sought to achieve. Interviews showed that views at Member level and other levels of the institution appeared to differ. This appeared to be true across all three areas assessed during the peer review;
- the ECA should also communicate its strategy and progress with its implementation, both internally and externally and including its key stakeholders. We suggested engaging more extensively with the EU Parliament, the Council and the Commission - in developing and implementing future strategies, thereby empowering a three-party relationship of audit engagements and improving the impact of the audit work without calling the ECA's independence into question;
- given the ECA's complex governance structure, it was important to understand that strategy development and its implementation could not succeed without clear ownership and accountability arrangements at all levels. We noticed that different views on interpreting the strategic goals and the means to achieve them existed at all levels across the organisation, as illustrated in interviews and focus groups with ECA Members, Directors, principal managers, and auditors and other staff members in audit chambers and directorates;
- finally, the ECA should work out a more synchronised operational plan for implementing the strategy, in line with the strategic decisions made, and break down priorities and goals into specific tasks and actions integrated with the ECA's day-to-day functions and processes. More strategic focus on work programming would help advance progress with all goals. In this way, achieving the goals of the strategy would become a part of everyone's daily work, rather than an additional set of tasks that may be perceived as burdensome.

Generally speaking, a more focused action planning would have helped management to give greater strategic priority to underlying initiatives related to these goals. To be in line with guidance and leading practices for effective strategic planning, it is important to articulate strategic objectives which would reflect the outcome or impact the ECA is intending to achieve through its various audits and initiatives.

To move from the more general to the more specific, we would like to present the most important conclusions on progress made with each of the three goals.

Goal 1: Improve the added value of the Statement of Assurance (SoA) in the context of today's EU financial management

First, it should be emphasised that the ECA has made progress in reforming the production of its Statement of Assurance (SoA), taking due account of the changes and improvements in the financial management of the Union. This was done by modifying the SoA approach, moving towards an attestation engagement as a recognition of the new state of affairs (the responsible parties, the European Commission and others, have started to prepare the necessary reports for attestation) and positive aspects of attestation reporting (using other auditors' work).

However, the overall audit burden had not decreased, and some technical difficulties still exist that should be overcome. The SoA, and the intention to add value with a reform of the SoA, remain rather complex and somewhat controversial. In particular, there is still a need to reach a common understanding of what the added value of the SoA could - or should - be, e.g. beyond and in addition to the purpose the Treaty provisions assigned in relation to the SoA. We observed that there is a broad range of very divergent views on this subject, both inside and outside the ECA. We recommended further dialogue with the auditee and institutional stakeholders in order to produce the SoA in the

most efficient manner, taking into account the specific features of each policy area and making the best use of innovative solutions, such as digital audit.

Goal 2: Increased focus on performance aspects of EU action

During the period under review, the ECA launched a number of initiatives to increase its focus on performance aspects of EU action. Moreover, the number of performance audits, opinions and relevant review products clearly increased during the first two years of the strategy in comparison with 2015 (see **Figure 1**). The ECA was also successful in expanding the range of topics and types of products to encompass new issues, delivering many of the products envisaged in the Action Plan.

Figure 1 – Performance audits and review products – 2015 versus 2018 and 2019



Despite these improvements, we also noted a lack of strategic focus in the ECA's work programming as well as in planning and conducting its performance audits. Moreover, necessary preparatory steps on key issues such as assessing EU added value (EAV) had not been completed prior to the strategy or during the early phases of the strategy's implementation in order to achieve more progress towards goals set. We recommended assessing the added value of EU action as early as in the audit planning phase. Also, we recommended further efforts as regards the comparison of methods and the results of EU action in order to highlight examples of good practice.

Goal 3: Get clear messages across to our audiences

During the first two years of strategy implementation, the higher publication output, the broader product range and intensified communication activities offered the ECA significantly more possibilities to engage with its various stakeholders. This resulted in improved outreach, mostly to the European Parliament and, to a lesser degree, to the Council and institutional stakeholders in the Member States. At the same time, the ECA streamlined and professionalised its communication activities vis-à-vis the wider public. The ECA and its products are nowadays more visible than ever, both via traditional media (mostly online) and social media (see **Figure 2**).

Figure 2 – Media coverage – 2017, 2018 and 2019

At the same time, we recalled that achieving the goal of getting clear messages across does not only depend on communication activities, but also on the quality of the primary products, i.e. the audits and reviews carried out by the ECA. Our main recommendations were that the ECA should improve its approach to identifying, building and reiterating key messages from audit work across its product range. And finally, it should explore how to differentiate the communication approach according to the relevance of specific products to its stakeholders, and how best to use complementary dissemination activities.

Learning lessons works both ways: where is the value added of the modern peer review?

Conducting the peer review of the ECA 2018-2020 strategy was a valuable learning experience for all participants in the team. We gained a lot of knowledge on how a state-of-the-art supreme audit institution should develop its activities in the present day's demanding circumstances. At the same time, in this contribution we would like to share some thoughts about peer reviews and strategy development in general. We did not put forward these thoughts in our report because it was not within the scope of the peer review. But it is important to reflect in view of the bearing these observations may have for other SAIs.

First, there is a wide consensus in the SAI community that the role and mission of public auditors, and the audit job itself, is changing due to technical progress and rapid changes in our environment. In their strategies more and more SAIs point out that giving added value and achieving positive impact is more important than only providing audit assurance. Maybe it is time to expect that this should also be the prime objective of peer reviews of SAIs.

Second, a peer review is usually a rather expensive and demanding undertaking for all participants. In order to gain the most from any peer review an SAI must have 'a strategy for peer reviews.' So the ultimate question of any peer review should be: why do we need an assessment in the form of a peer review and why are we having this peer review at this particular moment in time (unless a peer review is required by law)? Maybe just getting to know whether 'we are on the right track' is not quite enough.

Especially since most peer reviews do not highlight any surprisingly new information which the reviewed body is not already aware of itself, either through its internal control systems or otherwise.

Thirdly, the terms of reference of the peer review should not prevent the reviewing team reporting on important issues that may be outside the agreed scope, but could still be useful for the reviewed institution. We had the opportunity to present our most important findings to the entire ECA College before the report was submitted to the adversarial procedure and finalised. This presentation was made in 2019 at the 2019 ECA seminar, the annual 'away day' of the ECA Members and senior managers. This event gave ECA Members a better and wider picture of what the Peer Review team had concluded and why. Through this exchange the Peer Review team also got a better understanding of how to present its recommendations to give the review greater impact.

Finally, the ECA had timed the Peer Review on the implementation of its 2018-2020 Strategy so that it could use the peer review findings to develop a new strategy for 2021-2025. As a result, the seminar was an important milestone for both the ECA and the Peer Review team. It goes without saying that the Peer Review team never gave up its independence or integrity, but the exchanges during this seminar certainly added value and shortened the adversarial procedure.

In conclusion, flexibility and good cooperation during a peer review are necessary to optimise the outcome. This is especially the case when the peer review is targeted at evaluating the strategic progress of an SAI. We would like to thank once more the ECA Members, directors and staff for the great opportunity to carry out this peer review. Last but not least, the professionalism, dedication and resourcefulness of our Peer Review team were major factors in the successful finalisation of our report. We all hope that our report will bear fruit for the ECA's 2021-2025 strategy period.



Making strategy implementation a success: what can we learn from others?

By Rafal Czarnecki, Directorate of the Presidency

Learning from others always sounds like a smart thing to do. Long-term strategy development is something most EU supreme audit institutions (SAIs) undertake: so why not see what we can learn from their experiences in terms of making strategy implementation a success. This is what Rafal Czarnecki, senior officer for Strategy, Foresight, Planning and Performance Management, did in the initial stages of the ECA's own strategy development project. In his contribution, he looks back at this experience, providing an overview of what is done in terms of strategy development at EU SAIs, and shares some reflections resulting from the project.

Implementing the strategy is the hard part

In January 2021, the ECA adopted its new 2021-2025 Strategy. Although the text of the strategy is only ten pages long, work on its preparation took over a year. Why so long? The document itself is only the tip of the iceberg, the culmination of the efforts of many people who, through the strategy development process, wanted to present a vision of how we, as the EU's independent external auditor, can contribute to a better working Union and what our institution should look like in five years' time.

But the hard part is yet to come: making the implementing of the strategy a success.

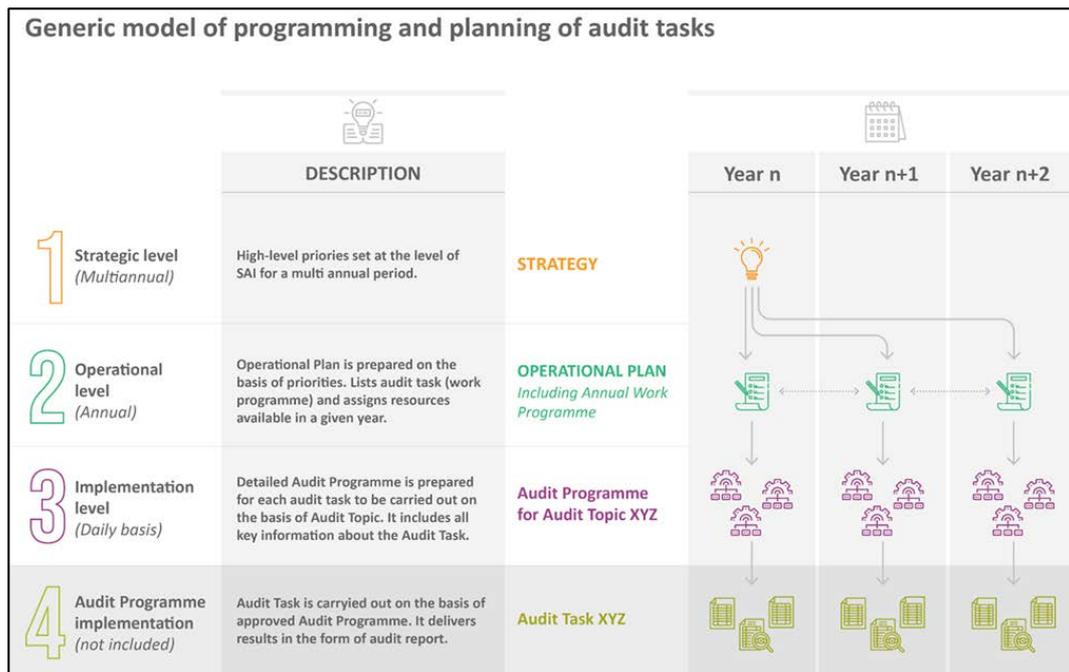
What do the standards say?

The preparation of an implementation framework for our new strategy started quite some time ago, and long before the adoption of the strategy itself. In the beginning, we invested some time to see whether audit standards, or existing recommendations by professional bodies, could be of help in our strategic planning. In general, there is, however, relatively little guidance to be had from the standards.

An overarching and very general principle is formulated in the International Standards of Supreme Audit Institutions (ISSAI), as adopted by the International Organisation of Supreme Audit Institutions (INTOSAI). In INTOSAI-P 20 it states that 'SAIs are [...] responsible for planning and conducting the scope of their work [...] to ensure that they promote accountability and transparency over public activities, meet their legal mandate and fulfil their responsibilities in a complete and objective manner.' In addition, the concept of strategic planning is discussed in the INTOSAI Development Initiative (IDI) Strategic Management Handbook For Supreme Audit Institutions (last updated in December 2020, see also page 139). The handbook is very relevant and helpful in formulating SAIs' strategic plans and, more importantly, helping to develop SAIs' strategic planning and thinking capacities. Finally, in 2016, INTOSAI published a Performance Measurement Framework (PMF) where it also identifies good practices.

Fundamentally, INTOSAI recommends a rather classical approach, well described in most strategic management textbooks. It could be reduced to a simple formula: long-term strategic plans should be translated each year into an operational plan containing short-term activities, which are in line with the strategic objectives. These activities are, for example, audits focusing on priority areas, recruiting staff with the right qualifications or organising specific training (see **Figure 1**). Naturally, such a scheme cannot function without an appropriate feedback loop, to provide management with adequate information on how well the strategy is implemented. The loop is also essential for periodic strategy implementation adjustments.

Figure 1 – Generic model of programming and planning audit tasks



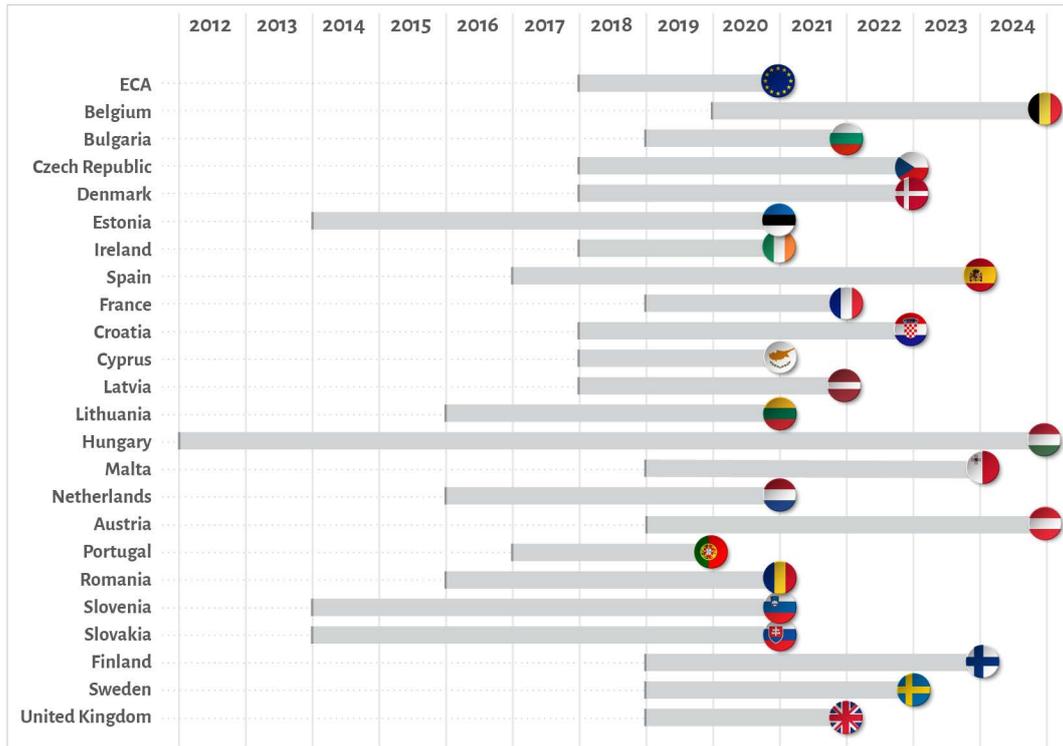
Learning from others

Moreover, as part of this process, we carried out a study on the *Work Planning Practice in EU Supreme Audit Institutions (SAIs)*. This study was aimed at providing an overview of the different practices applied by the EU SAIs in preparing and implementing multiannual strategic plans. Thanks to the information gathered, it was possible to understand how our peers deal with challenges which are similar to ours. As this study was launched in 2019, it still covered the UK NAO.

One aspect we looked at was whether EU SAIs use long-term strategic and operational planning. Our study showed that 24 out of 29 SAIs prepare a document that corresponds to a multiannual strategic plan, similar to our own practice. The remaining four SAIs do not prepare multiannual strategic plans as such; instead they operate on the basis of annual plans.

The planning period covered by these documents varies between three and seven years, with nine SAIs having a three-year strategy period, and around a quarter covering a five-year or longer period (see **Figure 2**).

Figure 2 – Length of planning periods covered by strategies as of 2019



The SAI of Hungary adopted its strategy in 2011 without setting an end-date. This means that the strategy is continuous, with periodic updates, if needed. Similarly, the UK NAO opted for a three-year rolling strategic plan. Their plan covers a three-year period, but it is updated annually.

We also analysed the 20 strategies that were publically available in more detail. These were documents of 15 to 20 pages on average, setting out the organisation's mission statement and values. Almost all the documents contained development goals that the SAIs intended to achieve through their strategies. In **Box 1** you will find an overview, including links, to the most recently adopted strategies by EU SAIs.

Box 1 – Recent strategies of other EU SAIs

A number of other EU SAIs have recently adopted new strategies. Below the key links to the most recent examples:

National Audit Office of Estonia: in July 2020, the Auditor General approved the '[Strategy of the National Audit Office for 2020–2024](#)'. The new strategy has grown out of the one in force so far, focusing on monitoring the resolution of issues and post-audit activities. The new strategy also provides principles for fact-based work with shorter deadlines and a more specific focus on offering information to the public and policymakers for better decision-making.

Office of the Comptroller and Auditor General of Ireland: the '[Statement of Strategy for 2021 – 2025](#)' was adopted in December 2020. The strategy is designed to ensure that the Office remains well positioned to deliver a quality and effective audit service to public bodies on a sustained basis.

The Audit Office of the Republic of Cyprus adopted its new strategic document in August 2020. [The Strategic Plan for 2021-2023](#) defines the mission, vision and values of the Audit Office. The strategy defines objectives and corresponding actions to be undertaken in the next three years.

The National Audit Office of Lithuania has drawn up a [2021 Activity Plan](#), which indicates it intends to devote a substantial part of its plans and resources to audits and assessments in relation to the COVID-19 pandemic. It is currently finalising its multiannual strategy (status April 2021).

French Cour des comptes: in February 2021, the French SAI issued a new strategy, one year earlier than initially planned. The strategy is entitled *Building together the future of financial institutions*, and is referred to as '[JF2020](#)' (where the acronym stands for '*Financial Jurisdictions*'). The strategy covers the period 2021 to 2025. This strategy contains three key objectives, 12 strategic guidelines and 40 actions, showing where the SAI wants to make a difference.

Algemene Rekenkamer of the Netherlands: in January 2021, the Dutch SAI issued a new strategy entitled *Trust in Accountability*. The strategy covers the period 2021 to 2025, contains four strategic choices and identifies citizens and businesses as the main reference points for the SAI's work.

Tribunal de Contas of Portugal approved its new strategy in September 2020. The '[Strategic Plan for the period 2020-2022](#)' aims to establish the framework for the Tribunal for the next three years, guiding and outlining its work, presenting how the institution should perform and what it aims to be at the end of this period.

Court of Audit of Republic of Slovenia adopted its '[Strategy of the Court of Audit for 2021-2024](#)' in January 2021. It includes key strategic priorities and objectives.

Supreme Audit Office of the Slovak Republic: its '[Strategy of the Supreme Audit Office of the Slovak Republic for 2020 - 2025](#)' reflects all the key factors affecting the Office's current activities, as well as those that are likely to affect it in the coming years.

Short term operational plans as a framework for implementing multi-annual strategies

SAIs define their strategies in very different ways. Moreover, strategies differ in terms of their content and focus as well as the timeframe they span. Despite these differences, successful implementation of multi-annual strategies almost always hinges on the quality of the lower-level operational plans and the way they are implemented. Their main purpose is to translate long-term strategic goals into more manageable operational targets and corresponding activities. In other words, the operational plan is the tool used by an SAI to implement its strategic plan and assist in managing its day-to-day activities.

According to the IDI manual, such operational plans should be prepared on an annual basis, allowing the SAI to formulate projects for the coming year. The plan should include a description of planned activities, their timelines, required resources, estimated budget, outputs, responsibilities and, sometimes, the risks involved. Operational plans ought to define a set of performance indicators to monitor planned activities and measure outcomes and outputs, and thus follow up on the implementation of the plan.

We analysed 17 operational plans obtained from different EU SAIs, all of them from the period 2016 to 2018. Some SAIs have decided to split their operational planning into two parts; one on achieving strategic organisational goals and another one on their ongoing audit activity. Typically, these SAIs plan their operational activities using two (or more) documents – one for planning audit tasks (work programmes) and a separate one for non-audit activities. In addition, some SAIs prepare separate planning documents for individual types of internal business processes, such as strategies or action plans for human resources development, communication or IT capacity development.

Overall, EU SAIs use their operational plans mainly for planning their audit activities (rather than implementing their strategic objectives). All 17 operational plans analysed for our study specified audit topics that the SAI intended to carry out during the period. Nine operational plans covered only audit activities, and thus excluded any auxiliary or support activities. Ten plans also contained information on other areas of the SAI's activity, such as training or communication with stakeholders. Usually, this information was formulated in general terms and did not specify any concrete actions or corresponding targets. Finally, 13 of the 17 operational plans contained some form of reference to the strategic plans, but generally in a rather vague manner.

A large majority of the EU SAIs (25 out of 29) prepare operational plans for a period of one year. Only two SAIs had plans covering a longer period (36 months) and two a shorter period (six months). Almost all SAIs (27 out of 29) allow for changes to these plans in the course of their implementation. In some cases, we saw that amendments were made quite frequently.

To sum it up: there is great heterogeneity in how EU SAIs go about implementing their strategies and there is no single, right way of doing so.

What can we learn from other SAIs?

By definition, a strategy is a document containing statements with a high degree of generalisation. This is true of the strategies that we have analysed, and it is also true for our own strategy.

Therefore, one of the main challenges for implementing our 2021-2025 strategy will be to translate the broadly formulated objectives into specific actions and to allocate them to the appropriate directorates and teams. This is one of the most important strategy implementation stages. It requires the coordinated involvement of all internal stakeholders and obtaining their full assent to the delegated actions. Proper coordination at this stage will ensure a comprehensive approach to all strategic areas, avoid overlapping (or conflicting) competences and help allocate resources in the most effective way.

As far as the ECA's organisation is concerned, the implementation will require some degree of central coordination. This means that it will be necessary to delegate certain competences to a central focal point, which collects data on the progress of implementation of individual actions and provides on-going feedback with appropriate instructions, aiming at correcting the implementation process. This focal point should be able to cooperate with all actors responsible for the implementation of the strategy, thus uniting both the audit activities, mostly done in audit chambers, and support services, for example training.

A roadmap for strategy implementation takes account of the human factor

Finally, I would like to address what I consider to be the most important element, the key factor responsible for the successful implementation of the strategy - the *human factor*. A perfect set of procedures and the most effective organisation will not suffice if we cannot get everyone in the organisation to consciously strive to achieve the objectives set by the strategy. A particular role, here, falls to management, which, in the first instance, should give the highest priority to activities and areas specified in the strategy.

We now have five years to make the vision set out in our 2021-2025 strategy come true: 'to be at the forefront of the public audit profession, and to contribute to a more resilient and sustainable European Union which upholds the values on which it is based.' Our success on this journey will depend on whether we manage today to sketch out a roadmap that everyone is willing to follow over the next five years.



Strategic planning at the Swedish National Audit Office: a fresh approach

By Helena Lindberg, Auditor General of Sweden



Source: Swedish NAO

Discussing strategy and planning with staff at the Swedish National Audit Office. From left to right: Magnus Petersson, Sascha Sohlman, Helena Lindberg and Claudia Caballero Jonsson.

Strategic planning is a complex task with many challenges for public auditors. There are internal considerations that supreme audit institutions struggle with when it comes to strategic planning, such as organisational and resource implications. And then you have the more 'external' elements, such as stakeholders' needs and expectations, against the background of wider public sector activities and a changing environment. Helena Lindberg has been Auditor General of the Swedish National Audit Office since 2017. Below she describes the strategic planning model for audit focus and operational development at the Swedish NAO.

Far-reaching audit mandate creating strategic obligations

The Swedish NAO has a far-reaching audit mandate protected by the Swedish constitution. This guarantees that within the framework of current legislation I can decide what is to be audited, in what way the audit is to be conducted and the conclusions we can draw from it.

The far-reaching audit mandate places particular demands on our planning and follow-up of audit operations. Our audit must be relevant. We must be transparent in what we audit and why, both internally and externally. It must be possible to work effectively and appropriately.

Importance of strategic planning for supreme audit institutions

Supreme audit institutions with far-reaching audit mandates are in a special situation. To be relevant and perceived by the rest of the world as relevant, supreme audit institutions must build up a strategic planning system that is specific to the profession and which can also be explained. It is also a matter of audit transparency: the choice of audit must be perceived to be legitimate and there should be no possibility of the supreme audit institution being suspected of selecting audits on unreasonable grounds.

One example of the challenge of being relevant is the ongoing Covid-19 pandemic. It has shown how sustainable our social institutions are and how the national systems relate to the EU level and other countries. The crisis has entailed major costs and will have long-lasting economic and other consequences in society. This poses questions as to what we as a supreme audit institution should audit.

I have in mind here that as early as 2008 the Swedish NAO published a performance audit report on national preparedness for managing pandemics. At that time, the subject did not figure much in public debate. Now in retrospect, the report can be seen as highly relevant and we recognise many of its findings on preparedness in Sweden in the criticism now directed at those responsible. One conclusion from this is that the concept of relevance is not so easy to apply. It is not a given that the most relevant thing for a supreme audit institution is to be where everyone else's focus is at the moment. Other criteria should also govern what we choose to audit. We also need to relate to other reviewing organisations in society. The *Corona Commission* appointed by the Swedish Government, for example, is tasked with evaluating measures to limit the spread of the disease and its effects.

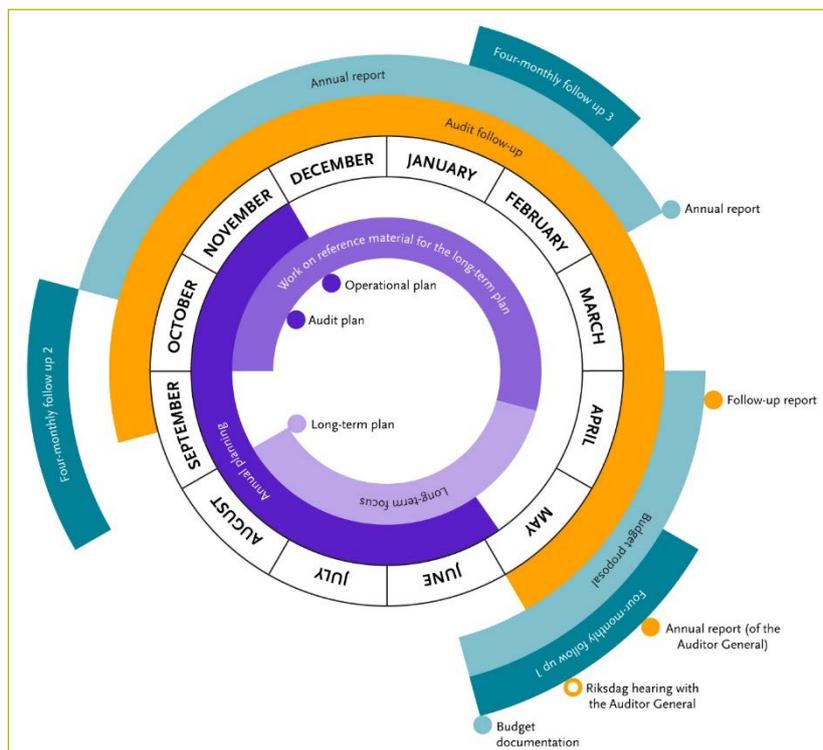
Our supreme audit institution must also have a long-term and structured method to secure our skills supply and to identify and address development needs. Otherwise, there is a risk that our ability to fulfil our remit will be limited. This may involve, for example, system support or the capacity to audit IT.

Planning needs to be the backbone of the organisation's operations and we must follow up what we do. This requires good governance and attention to quality so that ultimately our audit will have an effect. We have therefore put a lot of effort into developing a system for conducting strategic and risk analysis, for developing audit proposals and ensuring follow-up.

The Swedish NAO planning system

At the Swedish NAO we work with an annual cycle for planning all activities. Internal and external reporting of operational development issues and audit focus are part of the annual cycle. At the same time, for planning and follow-up, we keep and update a long-term, four-year, perspective (see **Figure 1**).

Figure 1 – Swedish NAO annual planning cycle



Source: Swedish National Audit Office

In the long-term plan, we formulate a four-year strategy in terms of both audit focus and the other operations. Developing the long-term plan is a joint project at the Swedish NAO, with contributions from all departments. While the long-term planning indicates the focus in the longer term, annual planning is in the form of an operational plan and an audit plan.

Identifying what the Swedish NAO is to audit

Our work is based on a model for strategic planning where I set the starting points and focus and take the decisions, drawing on our employees' knowledge and experience. In this model, the areas on which the audit is mainly focused are determined by means of strategic and risk analysis. The areas are presented in the long-term plan and are then specified in the annual audit plan, which is also communicated, primarily to the *Riksdag* – the Swedish Parliament. During the year, we make recurrent in-depth efforts to identify and take a position on audit proposals. Furthermore, there must be room for flexibility.

Through our annual financial audit, we audit approximately 230 auditees, including the central government (consolidated accounts). The audit follows a standardised risk analysis model that is complemented by the joint risk analysis.

For the focus of the audit, our entire organisation contributes strategic intelligence, analysis and review of the risk areas previously identified. The ambition is that through this arrangement we not only generate ideas but also broaden understanding of and commitment to the assignment.

In the planning process, we must have a common language, a common conceptual structure and common criteria. This helps us to communicate and evaluate ideas within our organisation. This includes establishing forms for effective and regular exchange of experience between financial auditors and performance auditors. For example, financial audit findings have often generated ideas for the performance audit.

In addition, we also want to learn from the experiences of other supreme audit institutions. Within the framework of Nordic cooperation, we participate in the *Nordic Foresight Networking Group*. There we discuss how to work strategically with strategic intelligence in planning.

Risk model and identified audit areas

The Swedish NAO has for some years planned on the basis of a model in which, through an overall strategic and risk analysis, we have identified the main risks in central government. These form the starting point for the audit focus within both fields of operation. They concern deficiencies in:

- the quality of documentation and information as a basis for stable public finances;
- the governance, follow-up and reporting of central government commitments;
- organisation, responsibility and coordination;
- skills supply.

For each main risk, we identify concrete risk areas. The risk model contributes structured management and follow-up of the audit operations, to ensure that the two audit types we are tasked with will consider the same main risks during implementation of the audit work. Despite this, I have found that there are reasons to continue developing the model in order to achieve a closer relationship between planned and completed audit.

The model also promotes a more coherent focus of audit work and allows for more comprehensive, long-term conclusions about the effectiveness and efficiency of central government administration. This is important, not least in view of the fact that many decisions are taken in relatively short-term perspectives, without any particular link to the overall and long-term objectives of central government. For example, Sweden's commitment and efforts towards the 2030 Agenda targets may be an aspect of audits within and between different policy areas.

Strategic operational development

It is crucial to be able to establish a long-term perspective on the organisation's development needs and use of resources. This is to enable our audit institution - in the long term - to continue to fulfil its statutory function and ensure high quality and efficiency. This involves both the development of operational processes, such as methodology, digital resources and being able to identify future skills requirements. The Swedish NAO's four-year plan states a strategic focus on how the operations need to develop and how our financial funds are to be distributed in the organisation. The needs generated by how we focus the audit contribute to the strategic focus. Here there is a connection between the different parts of the long-term plan.

Strategic planning is summarised in four long-term goals set out in the long-term plan. For each of the goals, we have identified prioritised development areas that are then translated into concrete assignments in the annual operational plan.

The Swedish NAO's four strategic goals for the period 2021-2024 are:

- our operations must be relevant to those we target and conducted to the highest quality standards;
- our communication must contribute to the greatest possible operational effect;
- our skills supply must meet the needs of the operations;
- our processes must be clear and effective.

One area of development that I would particularly like to mention is the implementation of the joint development and administrative model. The work of digitalisation and modernisation of our working methods must be done effectively, and the development must provide the greatest common benefit for our operations. It involves significant costs for development and administration. The model therefore needs to be transparent, roles and responsibilities must be clear, and the work needs to be an integral part of the organisation's planning and follow-up process.

A critical factor in preparing the organisation for future challenges is that we have control over our digital development as well as over our digital heritage. Development is often decentralised and is not coordinated between different parts of the organisation. As a rule, the costs of development are underestimated and the costs of system management are unknown, even though they often exceed development costs. At the Swedish NAO, we have established a centrally located function that is responsible for testing development and investment needs against the strategic requirements for the entire organisation. Maintenance management is integrated into operational planning and thus will also be coordinated with and weighed against other measures.

Digitalisation

In the technological development through digitalisation, I see a force and a source of change that will make great demands on our ability to develop working methods and at the same time offer opportunities to develop both administration and audit.

For our auditing activities, both financial audit and performance audit, it will be critical to build up or acquire expertise in digitalisation in order to conduct audits of high relevance. As government agencies develop their operations with digital tools, the Swedish NAO must also have employees who can define problems and ask the right questions regarding digital environments. Employees must also be able to carry out the audit itself. What happens, for example, when government agencies start using algorithms and artificial intelligence to a greater extent in decision-making? Questions may also concern agencies' ability to use IT systems in tax collection and transfer systems or how transactions should be taxed on digital platforms, where central government has limited insight.

Basically, it means that the Swedish NAO must have expertise in digitalisation and data. The expertise must be broad and encompass more than technical skills, as digital maturity is as much an approach as the ability to use digital tools.

This is also important from the point of view of information security. We see it as a challenge to continue to develop our understanding of risks associated with increased digitalisation. Data and information are valuable but at the same time sensitive assets, and the Swedish NAO is now developing its ability to move and store information securely, and to assure the quality of the information we send out and take in.

There are also risks that we will not be able to develop at the rate and in the way we wish. I am thinking chiefly of the [European Court of Justice Schrems II judgment](#) on the handling of personal data transferred to third countries and the use of US cloud services. The ruling raises many questions regarding our future development that we do not yet have answers to.

Changes in managerial structures

In 2017, together with two colleagues, I was responsible for heading the Swedish NAO. We had clear directions from the Riksdag. Much of our task was to structure and organise the work, including strategic planning. Many procedures were non-existent and there was no clear direction for the operations. At the same time, the managerial structure of the Swedish NAO was under review. Fourteen years after its establishment, what had often been discussed came into being – the Swedish NAO was given an Auditor General and a Deputy Auditor General (DAG), appointed by the Riksdag in 2020.



Source: Swedish National Audit Office

From left to right: Claudia Gardberg Morner, Deputy Auditor General, and Helena Lindberg, Auditor General.

The change means a model with one Auditor General instead of three, who independently decides on all audits, after consultation with the Deputy Auditor General. In fact, it provides completely different conditions for efficient planning of operations and simpler communication of both focus and outcome. Although one of the three auditors general was formally responsible for the administrative management of the organisation, much of the management took place collectively. This was often a strength but could cause a lack of clarity of leadership.

We have now worked for almost a year under the new model. We continue to shape the role of the Deputy Auditor General and there are probably further possibilities to also develop planning and governance. But we see that we are moving in the right direction towards what was the purpose of the change, also when it comes to strategic planning.



Dynamic planning as a means of embracing rapid change – the experience of the *Tribunal de Contas* of Portugal

By José F.F. Tavares, President of the Tribunal de Contas of Portugal



Agreeing on a strategy for your audit institution is one thing, but two elements are key to successfully implementing it: ownership and the flexibility to adapt when needed to internal or external changes. Since October 2020 José Tavares has been President of the Tribunal de Contas of Portugal. In his article he describes how both aspects have played a role in the development of their new 2020-2022 strategy and adjusting it to the COVID-19 crisis.

Our mandate: setting the framework for developing our 2020-2022 strategy

The *Tribunal de Contas* (Court of Auditors) is the supreme audit institution (SAI) of Portugal, and is one of the 'judicial model' SAIs. Like other SAIs of this type, we are able to carry out all types of audit and, in addition, we are vested with the power to rule on the liability of the persons accountable by law in the event of irregularities or mismanagement.

It is against this background that we prepare, design and approve our strategies and plan our audit work. In this framework, during the year of 2019, the Tribunal prepared its strategy for the period 2020-2022.

Developing the Strategic Plan 2020-2022: a participative process

The key word when it comes to describing the preparatory work that led us to the approval of the Strategic Plan 2020-2022 is *participation* (see also **Figure 1**). This involves the views of the different internal actors but also takes into consideration the opinion of the addressees of the Tribunal's work on where to focus and invest in the external and independent financial control of public finances.

Figure 1 – Strategic planning: open to participation



Source: Tribunal de Contas

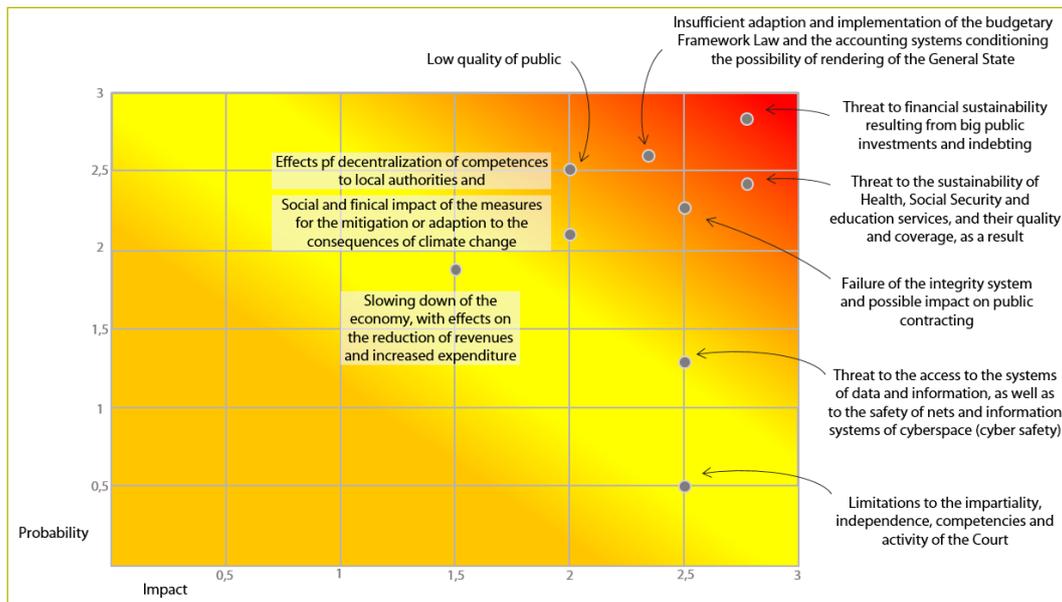
As for the *stakeholders*, we had just developed a comprehensive self-assessment of the institution, using the Supreme Audit Institution Performance Measurement Framework tool (INTOSAI SAI-PMF), as developed by the INTOSAI Development Initiative. The results of the interviews carried out with a number of leading figures and institutions during that self-assessment were important, and taken into consideration for the purpose of establishing the 2020-2022 strategy. Besides this, every year, we carry out a survey of stakeholders to obtain their feedback on how satisfied they are with our work.

Several initiatives were taken within the Institution. An informal plenary sitting was held to allow a relaxed and totally free discussion among the *Members of the Tribunal* on strategic planning. A preliminary document with an analysis of the internal and external environment and main risks was prepared for this purpose, presented and discussed during this meeting, both in plenary session and in small groups.

From these workshop debates several modifications, additions and more precise formulations were incorporated in the document and, with the support of our Department for Research and Planning, we were able to draft a first risk matrix. The collection of contributions continued with a meeting to which all the managers of the Departments of the Tribunal, our *leading auditors*, were invited. The meeting we organised followed a similar set-up to the one held for the Members.

Building on all these contributions, the Tribunal identified the potential risks (internal and external) affecting its control activity, and prepared a risk assessment matrix, including probability and impact scales to establish the related risk rate, thus ranking the priorities for the period (see **Figure 2**).

Figure 2 – Matrix for external risks



Source: Tribunal de Contas

The outcome: four major strategic objectives for 2020-2022

Our Tribunal thus adopted four major strategic objectives to be achieved in the three year period from 2020-2022:

- Objective 1: *enhancing citizens’ trust in public financial management;*
- Objective 2: *contributing to sustainable financial management;*
- Objective 3: *increasing the level of accountability of public managers;*
- Objective 4: *reinforcing the impact of the Tribunal.*

Table 1 provides more details on the priorities to be addressed under each of these goals.

Table 1 – Strategic goals and priorities

STRATEGIC GOALS	DESCRIPTION	PRIORITIES
1	Enhancing Citizens’ trust in Public Financial Management	<ul style="list-style-type: none"> • Assess integrity systems in public administrations • Improve risk analysis, evidence consistency and quality control in audits • Respond to whistleblowing situations in an effective and timely manner • Simplify communications with citizens • Turn the Tribunal into a model organisation in whatever concerns ethics and Integrity
2	Contributing to sustainable financial management	<ul style="list-style-type: none"> • Reinforce the audit of big public investments • Intensify the audit in the health, social security and education sectors • Audit climate change mitigation and adaptation measures • Monitor digital transformation • Audit the 2030 UN agenda (SDGs)
3	Increasing the level of accountability of public managers	<ul style="list-style-type: none"> • Intensify financial audit and the control of accounts • Proceed both with the certification strategy and the new approach to the General State Account assessment • Audit the main Public Administration reforms, namely the decentralisation of powers to local authorities • Build the conditions to improve jurisdictional effectiveness
4	Reinforcing the impact of the Court	<ul style="list-style-type: none"> • Adapt the organisation of the Tribunal to the priorities established • Update and implement human resources strategy to boost capacity, motivation, rotation and rejuvenation • Strengthen the auditors’ methodological knowledge • Promote digital competencies and the dematerialisation of processes and procedures in the different domains of the Tribunal

Trust, sustainability, accountability and impact are key dimensions that characterise the four strategic objectives we formulated. For the strategy's implementation, we identified several priority action axes, which aim to respond to the risks and challenges identified, namely those related to preparation for the *digital society*, *sustainable development*, as well as the impacts of *demographic evolution* and *climate change*.



At the same time, our strategy illustrates our commitment to contributing to a trajectory of *rigour and sustainability for Portuguese public finances*; and the need for significant investments in the *modernisation and reorganisation of our structure and modus operandi*, as well as in the qualifications and rejuvenation of our human resources.

Through this important strategic instrument, our institution is committing itself to reinforcing its policy of *transparency and openness* towards society, and developing a more integrated and articulated approach to the various aspects of financial control.

Our approach to planning: from a strategic plan to the annual plan

Our approach to planning starts from the strategy, and we apply a number of planning principles throughout the process:

- coherence and coordination between the different planning instruments (from the Strategic Plan down through the Operational medium-term Plan to the Annual Plan);
- evolution towards more detailed medium-term plans, which are nevertheless also designed to remain *flexible* and *adjustable*;
- a *top-down* approach to Strategic Planning, where the direction to follow comes from leadership, balanced with a *bottom-up* input, obtained through a strong emphasis on *participation*;
- strengthening *risk analysis* in the process of identifying the Strategic Goals and priorities;
- matching the activities planned with the *resources* in place, mainly human capital and funds; and
- systematic, continuous and regular *monitoring*, through strategic, institutional and operational *indicators* enabling us to spot, at any moment, the necessary adjustment measures.

Our 2020-2022 Strategic Plan: adjustments needed due to COVID-19

As I stressed above, at the Tribunal de Contas of Portugal we consider flexibility to be a permanent concern, seeing it as the ability to *adjust to rapid and unforeseen changes* that are typical in a globalised, interconnected and digitalised reality.

The year 2020 taught us a hard lesson about the need for adaptability and flexibility. To face the effects of the pandemic, SAIs and all the public sector had to rapidly adjust their working methods to continue operations.



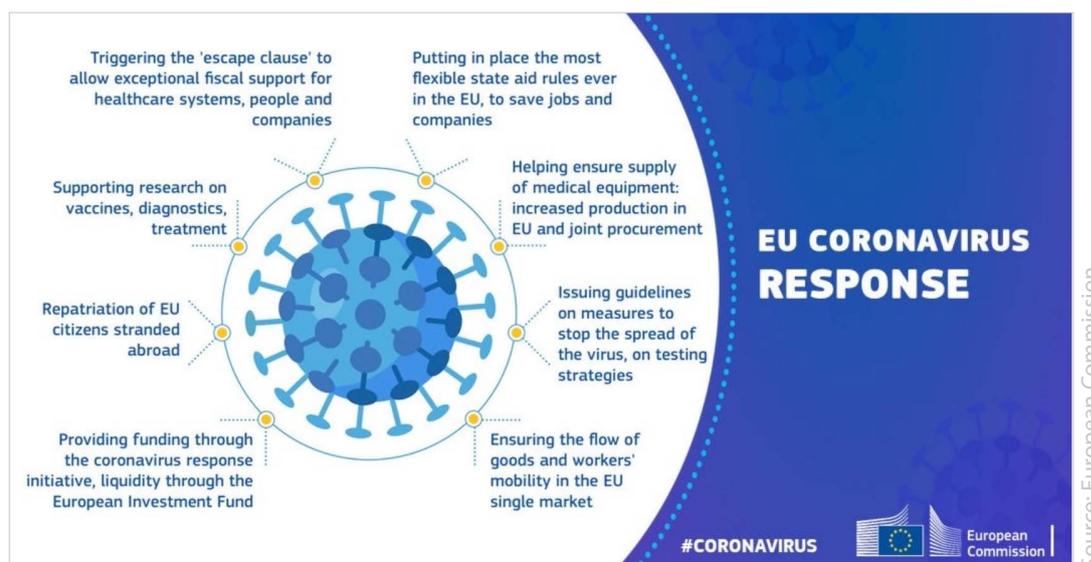
The Tribunal readjusted its 2020 Action Plan and Audit Programme, by shifting the focus of its work towards Covid-19-related aspects and we also reviewed our Strategic Plan and the medium-term Operational Plan for 2020-2022, given the changes to risk assessment and other adjustments we had made. A new priority linked to the effects of the pandemic on the economic, financial and social situation of the country was included. As a result, we identified 27 new tasks and we delayed others. Some tasks were cancelled in light of the burden they would cause to public entities at the centre of the crisis, or because they had become superfluous, given our current predicament.

We are addressing the pandemic from different perspectives, such as through:

- a. newly planned performance audits, targeting the worst affected sectors, such as health, social security, labour and employment;
- b. monitoring and assessing the progress of public finance as a whole;
- c. shifting the focus of previously planned audits, by adding an analysis of the consequences of Covid-19;
- d. implementing different methods of controlling contracts now exempt from *a priori* control;
- e. identifying risks in the management of emergency situations and alerting the public sector to them; and
- a. taking advantage of the mandatory rendering of accounts to collect and report the effects of the Covid-19 crisis.

A decisive priority for the next years is the audit of EU funds, namely those arising from the European Recovery Plan resulting from the Covid-19 pandemic (see **Figure 3**). We will strive to maintain a high level of audit pressure in respect of the sound management of the spending of the funds allocated to the country.

Figure 3 – EU coronavirus response



Looking ahead

In line with the principles of its planning system, the Tribunal de Contas will continue to evolve, and to address changes in the public audit environment as they appear. The risk matrix is a living document, and we intend to observe reality with a view to providing an adequate foresight analysis that will enable us to update our strategy and planning instruments. We are already developing a lessons learned exercise relating to the planning model, so that it can be improved and simplified.

To maximise the impact of our work, whole-of-government audits and collaboration between the different audit domains of our institution will be strengthened through various methods, such as:

- focusing on common themes;
- performing cooperative audits within the Tribunal;
- incorporating contributions or information and data from different sectors of our institution.

The cherry on top will be the completion of the integrated information system (already operational) to support our planning, programming, monitoring and reporting activities.

Stimulating resilience and agility in government: foresight and strategic planning as proactive tools for public auditors

By Stephen Sanford, United States Government Accountability Office



When it comes to innovation and exploring new horizons, the United States Government Accountability Office (GAO) has been a trailblazer for many public audit institutions. From an external audit perspective, GAO has identified the potential impact and relevance of emerging trends, whether it is the influence of algorithms or the use of disinformation (deepfakes), and GAO's Center for Strategic Foresight (Center) plays a key role in bringing such topics to the forefront. Stephen Sanford, the Center's Director, explains how scenarios, foresight and strategic planning have become essential tools to increase organizational resilience and agility and how public auditors can use these tools to help policy makers more effectively plan and design by assessing future impact based on present knowledge.

Scenario thinking and foresight becoming more commonplace

GAO marks its 100th year of operation in July, and it is a timely opportunity to reflect on the role that foresight plays in the evolution and transformation of supreme audit institutions (SAIs). Under its current leader, U.S. Comptroller General Gene Dodaro, GAO has continued to evolve into an essential part of government oversight, providing nonpartisan, fact-based and reliable analysis and information to members of Congress, their staff, and the public.

As citizens and governments continue to confront the COVID-19 pandemic and its effects, strategy and foresight are top-of-mind for many institutions and organisations. For example, questions about what the post-pandemic workplace will look like—or how international cooperation and interdependence might change, or where global economies are headed—all sit high on the lists of many leaders, planners, and decision makers. At the same time, it also bears keeping in mind that while a focus on exploring

pandemic-related effects and post-pandemic scenarios is important, an organisation's planning and foresight activities ought not neglect other areas of potential uncertainty and disruption that could have significant impact today or in the future.

Source: U.S. GAO



By now, we may all be familiar with terms like 'Black Swan,' 'long-tail risk,' 'unknown unknowns,' 'disruptors,' and similar. Crucially, we cannot know for sure which domain or sector will be the source of the next global crisis or systemic

disruption. What we can do, however, is consider such scenarios in a variety of domains and explore especially the interplay between sectors or multiple simultaneous events. This helps us understand how complex systems might react to such events—and in turn where potential risks and opportunities might be. In doing so, the principles of agility and resilience can be powerfully integrated with the toolkits of foresight and strategic planning.

Foresight, planning, agility and resilience

Organisations that successfully navigated the pandemic have used a blend of leadership and agility to adjust operations and guide staff through different transitions and operating postures during the COVID-19 crisis. It is impossible to develop strategies and plans for every eventuality. However, it is possible to plan for adaptability and flexibility.

A four-step cycle involving progressive steps of foresight, planning, agility, and resilience can be a useful framework to imagine how organisations can better prepare for almost any outcome. The goal is not to predict every possible contingency. Rather, the objective is to develop organisational strength and flexibility while understanding a range of possibilities and subsequently take action to build processes, resources and expertise that are robust against that range of possibilities. The ability to work remotely is an obvious and helpful example to explore and more fully understand this concept.

Organisations that planned for and invested in remote work options—by having technology to support it, developing policies to govern it, offering training, and establishing systems to monitor and improve—are well prepared to react and respond to a range of potential factors and external events that might increase the amount of remote work. For example, a foresight-driven scenario exercise may point to a host of possible reasons why alternatives to in-person work would be desirable or required. These reasons could span from the benign (giving employees more work-life flexibility or reducing commuting time) to the crucial (weather, maintenance, or security emergencies that render work at the office impossible for a short time, or mass societal emergencies like a pandemic with long-lasting effects).

Yet, an organisation does not have to commit to one of the eventualities. Nor should it. Rather, it should set a strategic direction and execute plans that reap the benefits and mitigate risks for a range of possible future events, no matter what they might be. Robustness arises because the organisation builds the capacity to sustain itself whatever scenario may arise. Its systems, processes, people and technology can actually strengthen as it weathers more scenarios that test it. Few organisations likely thought that their remote work programs and plans would be used for all employees for months at a time. However, by building flexible systems ready for a range of possibilities, it is possible to adapt systems to be resilient against more extreme tests.

Avoiding tunnel vision

Building maximum flexibility and long-term resilience from a planning process demands a 'full-spectrum' approach when considering the trends that will affect and help inform an organisation's long-term strategies. There is the risk that planners will become locked in to the constraints of the current crisis when updating strategies or to build present-day assumptions into long-term planning. Doing so would be at the expense of integrating additional factors into their efforts. The potential perils of tunnel vision are real, and it is

important to be aware of them and actively work to avoid them. The tunnel vision risk is heightened during an era of extreme disruption, as with the pandemic.

A far-ranging disruption like a pandemic certainly will have consequences over the long term, requiring planning. However, it might be overly restrictive to plan only for pandemics. A useful approach is to examine the effects of a major disruptor, such as a pandemic, across a variety of domains and ask the question: what risks and opportunities has the pandemic highlighted in each domain? What we learn about the pandemic's effects in certain domains today can provide useful insight into how those domains might operate in the future, independent of a pandemic. For example, beyond the obvious sector of health care, the pandemic has provided useful examples of transformative effects in education, elder care, transportation, supply chains, and government coordination, just to name a few.

Any organisation—including SAIs—seeking to understand potential future risks and opportunities in certain domains can easily explore how those domains operated under the stress of the pandemic, without becoming confined to only thinking about the pandemic and its most immediate consequences.

As GAO prepares to issue its next agency strategic plan in 2022, we are looking at a dozen major trends that we believe will impact government and society in the years to come.

Data analytics and foresight

Another important antidote to the tunnel vision referenced above is to employ a more formal and analytical approach to foresight. This encourages a broad approach to tracking and analysing trends. For several years, the foresight team at GAO has been monitoring emerging issues and trends in a tool known as 'ESP'—the Environmental Scanning Platform. This tool allows us to document, tag, and categorize trends over time and in a single repository. Most important, the tool creates a corpus of data to which we can apply analytical capabilities.

In a collaboration with the data scientists and experts in [GAO's Innovation Lab](#), we now have an analytical engine and data visualization platform to derive insights from the trend data we have been collecting as part of our horizon scanning efforts. For example, with the click of a button, we can easily see what the fastest-growing trends are in our database over the last year. This type of analysis is just the tip of the iceberg.

After combining different data sets with advanced analytic techniques, this is where the magic really starts to happen. For example, GAO's Innovation Lab team developed a digital concordance of every word that has appeared in the last eight years of GAO's published work. We can then take that list and compare it to terms in our trend scanning data and identify topics and concepts appearing in our trend scan that have not yet appeared in the audit work. This approach can provide powerful insight into potential future avenues of work, prompt internal discussions about strategies and planning related these topics, and keep GAO on a proactive footing in preparing to do such work.

An evolving SAI, looking to the future

In GAO's first 100 years, it has undergone an extraordinary transformation, from conducting simple verification of government expenditure in its earliest days, to the present day where we are auditing a pandemic in real time, developing oversight frameworks for artificial intelligence systems, and conducting technology assessments, to name a few. During that journey, foresight and planning have become integrated into the DNA of the organisation, thanks to the vision and support of GAO's leadership. This approach extends to the full range of work that GAO does, examining the efficiency and effectiveness across the U.S. federal government's broad spectrum of programs and operations.

This year, for example, GAO has issued an update to its [High-Risk List](#), a list of 36 programs and operations deemed 'high risk' due to their vulnerabilities to fraud, waste, abuse, and mismanagement, or in need of transformation. The list is issued every 2 years

at the start of each new session of Congress and has led to more than USD575 billion in financial benefits to the federal government over the past 15 years. The list points to areas needing sustained attention from policy makers and program administrators both now and in the future.

GAO also highlights future risks in its annual fiscal health reports for the U.S. federal government. In 2021, GAO issued [its fifth such report](#). The fiscal health report underscores that a growing gap between spending and revenues is built into the current design of U.S. spending and tax laws. Under GAO's projections, without action, the debt will reach its highest point in history in 2028 and continue to grow faster than gross domestic product (GDP) thereafter. Persistent low interest rates have reduced the government's borrowing costs; nevertheless, due to the size of the federal debt, GAO projects that net interest will become the largest category of federal spending by 2048.

It is essential that SAIs maintain a forward-looking perspective as they help policy makers and their public stakeholders understand what the future can bring. At GAO, this forward-looking approach extends to all areas where GAO's teams conduct work, such as acquisitions and contracting; defence; education; financial management; financial markets; fraud, waste and abuse; health care; homeland security and justice; IT and cybersecurity; international affairs and trade; natural resources and environment; infrastructure; retirement, income security, and community investment; science and technology; and cross-cutting government-wide issues and programs. It even includes developing new methodologies and research capabilities that GAO can use in its analytical work and further extends to the operational teams that assure the sound functioning of the agency.

We have extended this approach to global efforts with the International Organisation of Supreme Audit Institutions (INTOSAI), working with SAIs around the world to stay ahead of the curve on emerging issues. The Comptroller General has worked with INTOSAI to create working groups and committees focused on emerging issues, financial markets and regulatory reform, big data analytics, and science and technology, to name a few. These cooperative bodies enable SAIs around the world to share best practices and experience on audit in a range of emerging issues of national and global importance.

In the [October 2018 ECA Journal](#), I outlined the pillars of GAO's foresight ecosystem and how they support the agency's work and business processes. As we embark on this new decade and begin the second century of GAO's existence, we recognize that planning for the future is an essential task for all organisations. This is particularly true for SAIs, whose core responsibilities typically include assessing the impact and effectiveness of government actions—an ever-relevant aspect to effectively preparing for the years ahead.



Supporting public auditors in strengthening their strategic management

By Dafina Dimitrova and Nils Vösgen, INTOSAI Development Initiative

Developing a long-term strategic plan is a demanding undertaking for any organisation and public audit institutions are no exception. The INTOSAI Development Initiative (IDI), which belongs to the INTOSAI global umbrella organisation of supreme audit institutions (SAIs), tries to provide guidance and capacity development to SAIs all over the world. Dafina Dimitrova is Senior Manager in the SAI Governance Department of IDI and Nils Vösgen is Manager in the same department. Below they provide insights into how their organisation tries to help SAIs with strategic development and management in a versatile audit environment, including by using the recently published SAI Strategic Management Handbook.

A new perspective on strategic planning and management

A strategic plan is one of the most powerful tools supreme audit institutions (SAIs) can use in the quest to enhance their performance in an increasingly complex and uncertain world and to influence the quality of public sector governance and service delivery for the benefit of all. Even more, a strategic plan, paired with robust management and decision-making processes, helps SAIs to deliver their mandate more effectively and to enable them to become the model institutions they aspire to be.

SAIs have been preparing strategic plans for a long time. In line with its mandate to support SAIs in developing countries, the INTOSAI Development Initiative (IDI), as an autonomous implementing body of the [International Organisation of Supreme Audit Institutions](#) (see **Box 1**), has been assisting SAIs in the strategic planning area since as early as 2009. Traditionally, SAI strategic plans have mostly targeted improvements in audit practices and internal processes. Over the last decade, however, SAIs' understanding of a strategic plan's role and scope, and with it, the IDI's support, have gradually evolved. The narrower strategic planning focus has expanded towards a more comprehensive and externally oriented strategic management approach.

Box 1 – the INTOSAI Development Initiative (IDI)



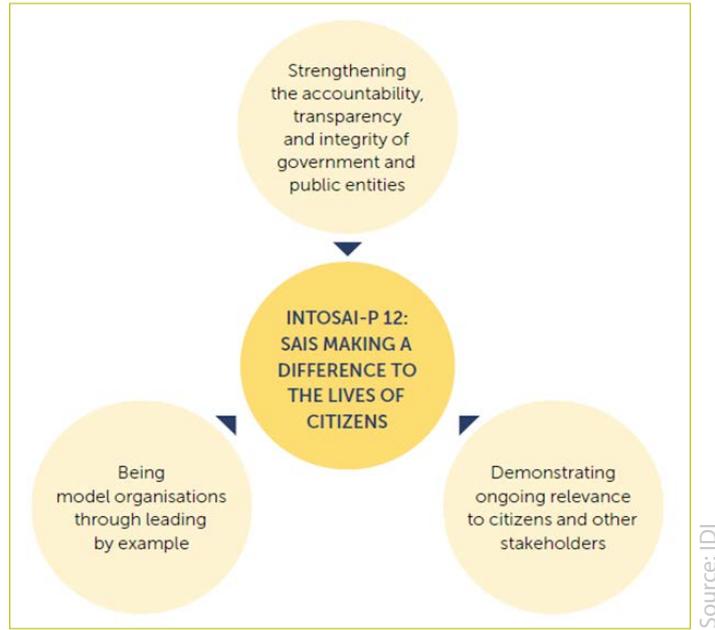
IDI is a not-for-profit, autonomous implementing body, mandated to support SAIs in developing countries to sustainably enhance their performance and capacity.

With a needs-based approach, IDI seeks to empower SAIs by peer-to-peer cooperation. Activities range from reporting and advising on SAI's independence, promoting SAI governance (for example through the SAI Performance Measurement Framework), Peer-support Partnerships, professional education for SAI auditors, support in auditing SDGs, or launching the Digital Education Initiative.

Several important innovations in the international community of SAIs lie at the heart of this transformation. First, in 2010, the INTOSAI community adopted the International Standards for Supreme Audit Institutions (ISSAIs), which provided a common foundation for the work of SAIs worldwide. Linked to the adoption of the ISSAIs, a second impetus for the change in the understanding of and approach to strategy development happened in 2016, when INTOSAI endorsed the SAI Performance Measurement Framework (SAI PMF). The SAI PMF offered a globally accepted framework for measuring SAI performance holistically and objectively against the ISSAIs and other good practices. For many SAIs, SAI PMF reports have served as a starting point for developing their strategies.

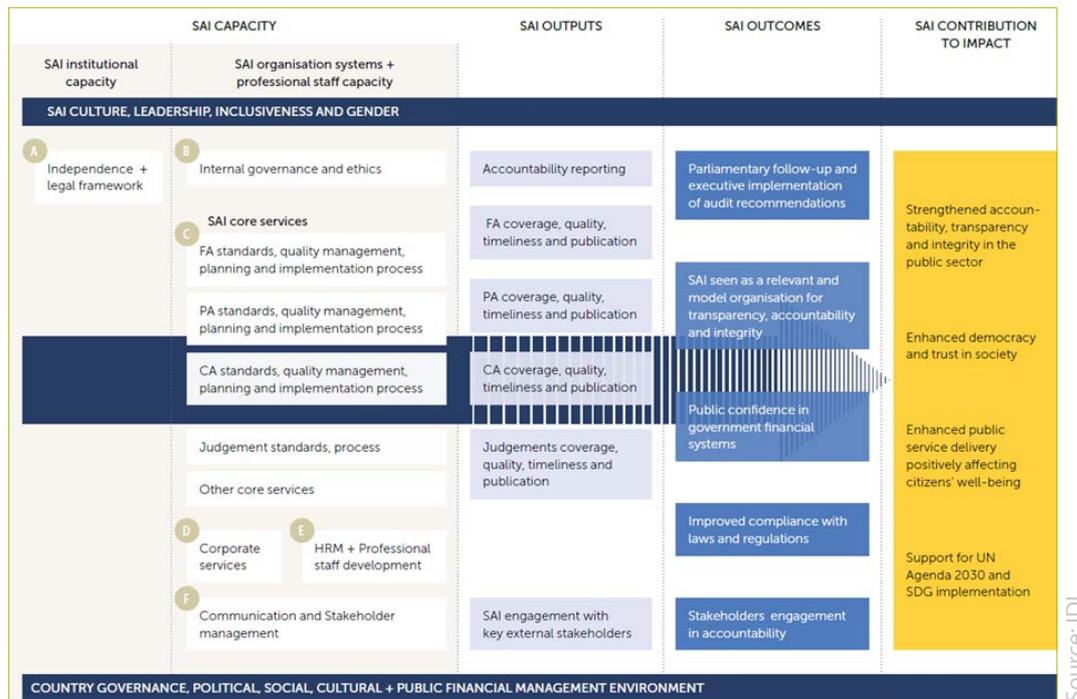
In parallel, one of the core INTOSAI principles for SAIs, INTOSAI P-12, on the value and benefits of SAIs, was endorsed in 2013. INTOSAI P-12 (see **Figure 1**) called for SAIs to make a difference in citizens' lives not just by contributing to public sector transparency, accountability and integrity. It put the onus on SAIs to become more responsive and relevant to their public sector environment and to act as model organisations of good governance.

Figure 1 - INTOSAI P-12



To respond to these developments and better support SAIs in preparing and implementing strategic plans in line with INTOSAI P-12 expectations, the IDI developed the SAI Strategic Management Framework (SSMF). The SSMF is closely aligned to SAI PMF but provides a forward-looking perspective to aide SAIs in strategic planning and management (see **Figure 2**).

Figure 2 - SAI Strategic Management Framework



The SSMF functions as a high-level results framework that defines a hierarchical chain of performance improvements that SAIs must address to effect change. The SSMF clarifies that internal capacity developments, such as improvements in human resources or audit methodologies, systems and processes, need to lead to tangible positive changes in external audit quality and other core work. But the SSMF does not stop there. It emphasises the need to frame, measure and report on SAI performance, as manifested in the quality, coverage and timeliness of its audits and other core work, in relation to its contribution to more robust public sector governance, implementation of United Nations Sustainable Development Goals (SDGs), and ultimately to better lives of citizens.

A handbook on Strategic Management for SAIs

As part of its capacity development support to SAIs, the IDI released its strategic planning book for SAIs in 2009. SAIs from both developing and developed countries widely applied the handbook as a blueprint for strategic planning. However, the 2009 guide did not fully respond to the changing need of SAIs to consider a broader and more externally oriented strategic management approach as captured by INTOSAI P-12. Neither did it capture the logic of the SSMF.

Data on SAI achievements and outstanding needs in the strategic management area confirmed that the guidance needed updating. According to the [2017 Global SAI Stocktaking Report](#), the share of SAIs worldwide with a strategic plan increased from 73 % to 91 % between 2010 and 2017. Most of those SAIs also had annual operational plans in place. However, a significant share of SAIs did not link the two; neither had they linked their strategic priorities to resource allocation. 61 % of respondent SAIs in 2017 said that they only monitored the implementation of their strategies at activity level and not at the level of improved performance. In conclusion, the global SAI community was lagging behind its good governance aspirations as laid down in INTOSAI-P-12 on several counts.

To respond to these challenges, the IDI completely overhauled and expanded its strategic planning handbook. The new [SAI Strategic Management Handbook](#) was published in late 2020, after an extensive development and public exposure phase. The handbook presents a holistic strategic management approach, based on the SSMF. It covers in detail all stages of the process, from assessment, through strategic and operational planning, to monitoring, implementation and reporting (see **Figure 3**).

Figure 3 - SAI Strategic Management handbook



The methodology emphasises inclusiveness when developing the strategy in line with the INTOSAI P-12 objective of SAIs being responsive to their environment. It recommends a stakeholder analysis to supplement the objective SAI PMF assessment. Through it, SAIs can identify those results and needs that matter for their stakeholders and strengthen both internal ownership and external buy-in from those stakeholders critical to the SAI's performance.

The new handbook also goes in-depth into the link between strategy and implementation. It focuses on operational plans as a critical strategic management tool and emphasises the need for prudent resourcing at the strategic and operational levels. Other novel elements of the methodology are a focus on prioritisation in light of factors such as available resources, potential impact or legality, and an integrated approach to measurement and monitoring of performance and risks at strategic and operational levels. Finally, it supports SAIs in their strategy implementation with guidance on decision-making and change management.

While the IDI's mandate is, in principle, to support developing-country SAIs, the handbook's approach is versatile. SAIs from both developing and developed countries can apply it, irrespective of their institutional set-up and model. Each chapter contains practical guidance and examples and distinguishes between basic and more advanced strategic management features. Depending on their current capacities, practices and context, SAIs can decide which elements are most useful. Many SAIs of EU Member States may already be following to a large degree the good practices described. Still, they can use the handbook to confirm their processes' quality and identify outstanding improvement areas.

Supporting strategy development in testing times

The SAI Strategic Management Handbook was prepared in the framework of IDI's Strategy, Performance Measurement and Reporting (SPMR) capacity development initiative. SPMR supports SAIs through the whole cycle of strategic management, from conducting SAI PMF assessments and engaging with stakeholders to gather their views, through strategy development to set up relevant, operational planning, monitoring, and reporting routines that underpin strategy implementation. The initiative is delivered in regional groups over several years through workshops, individual advice to SAI teams, and online interactions. The regional set-up allows participating SAIs to learn from peers and lend mutual support.

IDI first piloted the SPMR initiative and the methodology that later on fed into the SAI strategic management handbook in the Pacific and Caribbean. The global roll-out of SPMR commenced in 2019, with the financial support of the Swiss State Secretariat for the Economy (SECO). Over 40 SAIs from Europe, Asia, Africa, and Latin America presently participate in the global phase. Among those are several SAIs from developed countries.

It was precisely at the strategy development phase of the SPMR initiative when the global COVID-19 crisis struck. Like all other institutions, SAIs faced a heightened level of uncertainty as the pandemic hit. At first, they had to react to the health threat to their staff and organise short-term functionality. However, the focus quickly reverted to strategy, and as it unfolded, the pandemic drastically changed the outlook and significance of strategy development for the participating SAIs.

SAIs promptly realised that the changed situation provided some crucial opportunities for SAIs. They could strengthen their relevance and image by ensuring effective oversight of unprecedented volumes of emergency spending. Audit work on health and social security systems, disaster relief, crisis management and gender equality in times of crisis received new attention. On the other hand, SAIs also faced significant challenges, with many experiencing reduced budgets, staff shortages, and auditing limitations in non-digitised environments. How to reconcile such challenges with the elevated expectations from SAIs and at the same time deliver on their mandate became the central question SAIs looked to answer through their strategic and operational plans (see also **Box 2**).

SPMR provided participating SAIs with the right tools to adapt their strategy development to the new circumstances. With heightened uncertainty, risk management and scenario planning became more integral parts of the approach. Resource estimation and allocation received unprecedented attention. Covid-19 also underscored the importance of regular periodic review of progress, continuous learning and the flexibility to adapt and adjust both strategy and implementation along the way. In particular, such strategic changes need to be rooted in a thorough analysis of the external environment, stakeholder needs and opportunities. SAIs also recognised the communication power of strategic plans as a tool to demonstrate relevance, highlight a shared agenda for influencing positive change and serve as an advocacy platform. Such experiences from strategy development during the onset of Covid-19 greatly informed the SAI Strategic Management Handbook's final version.¹

Box 2 - Covid-19 related strategic planning priorities considered by SAIs participating in SPMR

- Contribute to the government's ICT and digitalisation efforts (SAIs of Costa Rica and Malaysia)
- Ensure accountability of vaccination procurement and support implementation of disaster risk management across public institutions (SAI of Peru)
- Enhance awareness of and trust in the SAI through audits on COVID-related topics such as gender equality, health care or emergency spending (SAIs Botswana and United Arab Emirates)

The future of IDI's Support for Strategic Management

The Covid-19 crisis is far from over and continues to have long-lasting effects on societies and institutions within them. SAIs are reacting to those changes by re-evaluating the focus of their audit work and factoring emerging issues into their strategies. In many places, the pandemic has given a final push towards the overdue digitisation of SAI processes and the establishment of sound ICT infrastructure and governance processes. The pandemic has also shown that SAIs are susceptible to risks and were not all well prepared to handle crises. Finally, in many ways, Covid-19 has accentuated persisting inequalities, specifically gender inequality, where SAIs are yet to prove that they lead by example.

The various repercussions and implications of Covid-19 also underscore the need for the IDI to plan and provide its support in a holistic and multi-faceted manner. The IDI is launching several new initiatives in the governance area in 2021, closely related to the experiences with strategic planning and management gathered through SPMR and the handbook development. These initiatives will focus on SAI leadership, ICT governance, human resources, ethics and gender, and risk and crisis management for SAIs. The SPMR initiative's roll-out continues in 2021 and will be open to new entrants. All SAIs are welcome to express interest in participation.

¹ IDI also prepared specific guidance on Covid-19 implications for SAI strategic management. <https://www.idi.no/covid-19/covid-19-strategic-management>

Making the EU institutions ready for the future, for pragmatic and democratic reasons

Interview with Damian Boeselager, Member of the European Parliament

By Derek Meijers and Gaston Moonen



Source: Damian Boeselager

Damian Boeselager

If there is any political party in the European Parliament which has high expectations of what the European Union can do in the future, it must be Volt Europe. Volt is the party most explicitly running on a pan-European ticket. In 2019, one candidate from Germany, Damian Boeselager, was elected to the European Parliament. More recently, at the national elections for the Dutch parliament in March 2021, Volt Netherlands came in with three seats, while at municipal level many more Volt candidates were elected, often supported by young voters. Why does Volt think that our future should be a European one, and what kind of strategy do they envisage to realise such a future? These and other issues we discussed when interviewing Damian Boeselager, Member of the European Parliament for Volt Europe.

Turning the page towards more Europe

Volt Europa, abbreviated as Volt, is a young political party, founded in 2017. Volt was established on the same day that the United Kingdom formally announced its intention to leave the European Union. And this clearly must have been more than a coincidence since one of the key motives to establish Volt was to focus the political debate on the possibilities the European Union offers. This future-orientated approach is also reflected in the slogans attached to the political programmes of Volt parties at national level. Damian Boeselager: 'Our slogans are forward-looking, such as "Turn the page," or in Germany "You decide who decides tomorrow."' The Dutch Volt slogan translates into something like 'Do not vote for yesterday but vote for tomorrow!' They are all a bit like this: forward-looking, positive, new-age kind of direction,' the Volt MEP explains.

This positive approach is one of the key issues that distinguishes Volt from more traditional parties. 'I always try not to talk negatively about other parties because that is not my role. Basically, my role is to fight for our ideas.' He adds that, to put it in simple terms, the trigger for launching Volt was the idea that the issues societies have to deal with now are much bigger than any single nation can handle. 'No matter what issue you care about, be it social standards, migration, climate change, digitalisation, competitiveness, foreign policy, security, no matter which topic you take, you will always find that these issues cannot be tackled anymore from a purely national point of view.'

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No matter what issue you care about, (...) you will always find that these issues cannot be tackled anymore from a purely national point of view.'

Volt also stands for a decidedly pro-integrationist approach to the EU's future. Often, in the political debate – and not only for populist politicians – the first idea is still to go for national solutions. 'This approach to go rather to the nation state to deal with problems which are too complex for us, rather than fixing the EU in a way that makes it work, that negative sentiment started our thought process. While negative, more populist, narratives were abundant back then, we saw a lack of pro-European, positive narratives.'

What Damian Boeselager and the other Volt founders also perceived was a lack of a longer-term strategic concept for the European Union. 'Traditional parties in Germany and actually in all EU countries might at times be pro-European, but they never have a real vision for Europe regarding its integration, its future. They never present a model of what the EU should look like in 10, 15 or 20 years from now.' The young MEP calls this the 'muddling through' approach: 'While national interests are considered valid and therefore should be represented, in these parties there is no real interest in presenting European solutions.' He refers to the party situation in the European Parliament. 'They most often have ten, 15, 20 employees. But the power hub for every party in the EP obviously lies in the Member States. Even in the EP, it is quite clear who calls the shots: the Merckels, the Sánchezes, etc., in the Member States.'

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For the MEP it is evident that the question should be: where do we go from here? He believes some reform is needed. 'I am currently working on this as a member of the EP Committee on Constitutional Affairs. Our idea would be that you have one vote for your national list, and one vote for the European list. This way you actually create European parties. To close the circle and actually have European interests represented, you need European parties that have actual power.' Here he refers to the parliamentary powers vested in a normal parliamentary democracy. 'Which means that the majority in the house forms the government and that government can be held accountable. The latter is an important point that also affects your work at the ECA.'

For Damian Boeselager, ideally speaking, the ultimate threat to a governing coalition would be that this coalition loses its support in parliament. 'And currently, at the EP, this is not a realistic scenario.' He gives an example of the limitations to the EP's powers: 'If the parliament were to ask for the resignation of a single Commissioner – which, formally, we cannot even do – we could not really decide who comes next. It is not an attractive tool for us to use. And this is what I mean with things that should change: issues of accountability and responsibility, and their being fudged, and then a perception that the EU is not democratic – all leads to anti-EU sentiments. And the system is democratic, but it is also rather complex. Ultimately, this feeling of a lack of accountability can have far-reaching consequences, as we have seen with Brexit.' He reiterates that it is time for change, to get rid of the last vestiges of 'governmentalism' and turn the page to something more accountable, something that is understandable and has more impact.

Accountability to make you stronger

Damian Boeselager already referred to the interest the ECA has, as an external auditor, in strengthening accountability, and he believes that public auditors, as they can be critical, have an important role to play in his European narrative. 'The question is: what kind of EU do we need? The ECA is part of the EU, it is an EU institution. When the ECA criticises the EU, it actually strengthens it, because you are basically showing where the EU is functioning well, and where less so. This is all part of accountability: failures need to be identified and exposed to public scrutiny.' He sees a huge responsibility for the ECA in ensuring that everybody,

certainly the parliament but not only, holds governments accountable. 'With every criticism the ECA presents, you strengthen the EU's accountability, and thereby its credibility. Honestly, it could not be more important and I am very happy that the ECA exists.'

“ *With every criticism the ECA presents, you strengthen the EU's accountability, and thereby its credibility. (...) I am very happy that the ECA exists.* ”

For the MEP, where the onus for the ECA's critical remarks lies is a very straightforward matter. 'If those you criticise want to have more positive reports, it is very simple: they just need to act upon your recommendations. I do not know the procedures for dialogue between auditor and auditee before you publish, and, as a public auditor, you have to assess how harsh you need to be. But if there is wrongdoing and the ECA does not come forward with it, you make the EU not more but less credible.'

The MEP also has a question for the ECA: 'Does the ECA think it now has all the powers and possibilities to fulfil its duties, to provide evidenced-based audit reports, independently and objectively? Because this is certainly of interest to me. If the ECA has any thoughts on potential necessary improvements in its powers, I would like to know about it.'

“ *If the ECA has any thoughts on potential necessary improvements in its powers, I would like to know about it.'* ”

An inherent weakness concerning modernisation

As a member of the EP Committee on Constitutional Affairs, Damian Boeselager is keen to introduce constitutional changes that reinforce pan-European arrangements for finding solutions and implementing them. This brings us back to the main reasons for creating Volt in the first place. 'The way we think about it is very simple: there are issues which transcend all borders, which is why the EU exists in its current form: it arbitrates between national interests and defines common European interests for a number of topics. We can call it an "interest" balancing process.' He explains that the process is cumbersome since it is still mainly inter-governmentally oriented, with the EU seen as an institution to which you send national representatives, even for the European Parliament.

He continues, saying that on the other hand, this inter-governmentalism means that national governments take many decisions that have an influence well beyond their borders. 'That is why in Greece people say: "How come that Merkel is influencing the national austerity strategy so much?" So governments have influence over citizens in other countries, but these citizens do not have a chance to vote for them, or vote them out of office. This is the democratic issue here. The executives are really powerful. And the way to solve this is through European parliamentary democracy, giving more powers and competences to the European level.'

“ *The executives are really powerful. And the way to solve this is through European parliamentary democracy, giving more powers and competences to the European level.'* ”

To illustrate his point the MEP gives what he calls a 'negative' and a 'positive' example, the negative one relating to immigration and the positive one relating to the pandemic and its consequences. 'For the EU's immigration policy the EU has been giving itself powers for years now, but since 2015 there has been no real progress. Why? Because the Justice and Home Affairs Council cannot put it on the agenda anymore, and then the whole EU trilogue process is completely blocked since no agreement can be found, it does not even come to a vote.' He labels this a failure of the institutional set-up.

The positive example relates to the Next Generation EU instrument (NGEU). 'I was one of the negotiators of the Recovery and Resilience Facility. By the way, we talked about the ECA's input, which was extremely helpful.' Damian Boeselager points out that the key moment regarding the NGEU turned out to be the July 2020 summit of the Heads of State. 'In that four-day meeting the European interest was the weakest interest represented. Commission President von der Leyen was basically just being an arbitrator. She could say "We need to go in this direction," but nobody would really care in view of the power base. That is a horrible set-up.' He finds this confirmed in the discussions relating to the rule of law. 'This topic is then later used by two national governments to basically hold the whole EU hostage over rule of law issues. And then we had the Council inviting the Commission to only apply the law once the case had been dealt with by the European Court of Justice. In my view this goes against the Treaties, first testing the independence of the Commission and secondly, attacking the applicability of Union law.'

For Damian Boeselager it is clear that lessons need to be drawn from the actions and reactions to the pandemic crisis. 'I am currently drafting a working document in our Committee on Constitutional Affairs. When it comes to health – the first wave of the crisis – we completely failed because we did not have the competences to do anything at Union level. Nor when it came to localised strategies on how to deal with COVID.' He is more positive about the second wave: 'We did something about the social and economic consequences of the crisis, not very fast, and sometimes threatened by the process I just outlined. For me the overarching issue here is resilience, and at EU level even more an issue of institutional resilience.'

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He observes that both at national and EU level there are processes to adapt institutional set-ups and constitutions. 'But they are not automated, we do not have constant revision. I would plead for some form of a timetable that makes a revision process mandatory at regular intervals, bringing the decision-making structures of the Union up to date. Or updating the mandate of the ECA.' He points to the United States, struggling even more with such issues. 'If you look at the US elections, their electoral college – extremely hard to change, which makes the US a weaker democratic society.' He identifies this as the inherent weakness with regard to modernising. 'In the past we had new ideas about how a perfect democracy would look. But things evolve and perhaps the thresholds we have set for adaptation are too high. We then muddle through one crisis and just hope that things will work better in the next one.'

Preparing for the Conference on the Future of Europe

In the Committee on Constitutional Affairs, Damian Boeselager is the spokesperson for the Greens, who he has teamed up with to have more impact. 'Across political groups I do see an interest, also in this Committee, relating to these questions of institutional resilience and rejuvenation. Now the big topic in our Committee is the Conference on the Future of Europe, and the working document I referred to is in preparation for this Conference. There is still the question of what form this conference should take and how binding its conclusions should be.'

In his view, this conference should really be a conference for citizens and attention should be directed at increasing the accountability of the conference towards citizens. As for the expectations he has concerning the ECA regarding this conference, he thinks that, once decisions have been taken on the topics to be discussed, the ECA should formulate its contributions according to these topics. 'Probably there will be climate, health, security, foreign policy, industrial policy. I think it would be great if the ECA had inputs on these issues. I hope that one discussion topic will be the EU's institutional set-up and that the ECA will also contribute on this, in view of its expertise regarding governance issues.'

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Zooming in on one of the issues, climate, the European Green Deal is an example where EU ambitions collide with Member States' strategies to implement them. Damian Boeselager: 'If you look at the Green Deal there is obviously a prioritisation from the European Commission's side, saying: "Climate, environment, biodiversity, these are important for us." Then, in the original proposal, there was €9 billion linked to it. I think that the Green Deal is really important and it was good that they did this. Such an amount is something, but it's not the "big" new Green Deal.'

For the MEP, the Green Deal shows that the European Commission alone has no power to actually deliver on it. 'The Commission can only propose something hoping that it will go through Council and Parliament. This raises again the question of accountability and democratic process. Because if it were an elected government which knew it had a majority in parliament, it would be able to act on certain things. Something like: this is the Green Deal, it has €200 billion behind it and we are going to change laws X, Y, and Z accordingly.' He points out that this is not how the EU works: 'The Commission can only set out an ambition and then hope that it will carry as many co-legislators as possible.'

In this connection, he sees that Council members say one thing in their Member State and another thing in Brussels. 'For example, Schultz and Merkel both gave speeches on how important more money for the EU Horizon programme was, while at the same time, their finance ministry was advising them not to accept such increases.' Damian Boeselager underlines he is not against compromise and that it is part of the process. 'If it is a bad compromise, politicians will be held accountable. But what we are currently held accountable for is a bad institutional set-up. A key issue here is the over-representation of national interests. It is actually the blocking power of the national interests that is making or breaking the EU.'

“*what we are currently held accountable for is a bad institutional set-up. (...) It is actually the blocking power of the national interests that is making or breaking the EU.*”

In this context, he also refers to the rule of law issue discussed earlier. 'I have to go home and explain why Hungary and Poland could basically hold EU citizens hostage because they don't want the money their accomplices receive to be stopped. This has nothing to do with compromise, it is a reputational issue.' He refers to another example, from the July 2020 summit: 'The way the Dutch Prime Minister behaved then, together with some others, was unbearable. But it was his right, because he is representing only national interests. Institutionally speaking, he has no interest in representing European interests. Again, the issue is that this institutional set-up favours misbehaviour, miscommunication and the dilution of accountability. I am a big fan of the EU, but let's not leave it at that, let's fix the issues which are causing such things.'

In addition, he thinks that the current malfunction of the EU institutional mechanism is exacerbated by national elections going on at different moments in different Member States. 'If you give a blocking power to any single government for very important issues, then, when an election is coming up, they may not be daring enough and they will block. EU policy making is dependent on national circumstances and alternating parties.' He believes that solutions are available to prevent a European policy, supported by the majority of the European parliament, being blocked by a Council member.

Providing insight, oversight and foresight

Damian Boeselager will be, in his capacity as substitute member of the EP's Committee on Budgets, the rapporteur for the European Parliament's 2022 budget. He thinks that insights from the ECA on future risks for the institutions would be useful for his work in this respect. 'In traditional strategy-making, both for the short and longer term, you can identify external factors that represent opportunities or threats. As the rapporteur for the EP's 2022 budget it would be helpful to understand, for example, how the trends in CO₂ reduction and digitalisation – this dual transition for the administration, also in view of how the pandemic has changed the way we work – are going. Overall goals for energy consumption, CO₂ reduction, etc. from other institutions, from agencies, the ECA, the ECB - those would be very interesting.' He adds that perhaps the ECA could also give recommendations on unforeseen circumstances.

Damian Boeselager expects the ECA to report on both weaknesses and improvements. 'If the ECA identifies substantial improvements in accountability for X, Y, or Z, this should be reported. This is what I expect from an independent and objective audit institution.' His perception is that the ECA has a very clear mandate. 'I worked in German ministries. Not for very long, but long enough to know that there people feared the German Court of Auditors. Because the German Court can destroy public administrators' careers. I think the ECA should also be feared in the sense that if people think about why they make certain decisions, they should consider "Will I get this through the ECA's assessment?" So my question for the ECA is: "Do you have enough powers to do your work and to be feared?"'

“*... my question for the ECA is: 'Do you have enough powers to do your work and to be feared?'*”

One topic the MEP is very explicit about is budgeting rules and guidelines, which need to be clear and complied with, but also adapted. 'There are currently so many bad incentives in the budget context, quite astonishing. I have talked to all the directorates-general in the European Parliament and what I hear regarding the "end-of-year procedures" is that the annuality of the budget triggers bad incentives in budgetary management.' He points

out that he would very much welcome more ECA work regarding specific expenses, and on MEPs' general expenditure allowances. 'Coming from the private sector I was surprised to see the arrangements for these allowances and I believe rigorous scrutiny of this type of expenditure is necessary. As an MEP I have access to funds for which the procedures to ensure that they are spent appropriately are not rigorous enough. If your ethical standards are not too high, it is easy to circumvent these procedures.' He points out that a lot more transparency can still, and should be, embedded in the system of MEP salaries and cost reimbursements.

Pragmatic solutions that work... because they make sense

For the Volt MEP, openness on things that work well and things which work less well and need to be improved – such as cost reimbursement systems, or the real reason why the EU spends several million euros annually so that MEPs can convene in Strasbourg – are crucial to winning trust and the positive reputation that the EU needs if it wishes to move forward. 'That is why the ECA's work is very important and necessary and I will always be happy to cite from ECA reports. Currently the issue is: what kind of institutional arguments are we handing eurosceptics? That is what we did for the UK, because they are strong parliamentarians. And the fact is that parliamentary democracy in the Union is still weak, and we should deprive the eurosceptics of this argument, whether they are in Germany, the Netherlands or the UK.'

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... the fact is that parliamentary democracy in the Union is still weak, and we should deprive the eurosceptics of this argument...”

That last point makes Damian Boeselager even more determined about the changes he wants to pursue in Europe. 'What I would like to achieve in the coming years is to change the electoral laws, so that we get transnational lists, an important element of the next step towards European parliamentary democracy. Another change I hope to contribute to, is that fewer people, preferably none anymore, freeze to death at our borders or drown in the Mediterranean.' He is therefore striving for a more workable European immigration code. 'But also one that attracts more talent globally, by means of effective labour migration systems, something we are working on as well. Another topic I am working on is the data governance act, to ensure that when it comes to digital competitiveness, we are better off here in Europe.'

Regarding the recent Recovery and Resilience Facility, he hopes that it can set an example for the future: 'A best practice example for future crisis situations, basically to ensure that we have a functioning macroeconomic governance system in Europe. And it could be the beginning of a change in how we govern our Union fiscally. That would be quite a significant step.'

Damian Boeselager may sound like an idealist, but he also sees himself as a pragmatist. 'The idea that you can solve all issues at national level is nonsense. The idea that you can solve all issues at the European level is just as nonsensical. You need local, regional, national and European systems that take decisions on political issues, decisions which need to be taken at *those* levels. It is as simple as that. To do so we need efficient decision-making mechanisms. That is all : the pragmatic pro-European approach.' He recalls the years when he lived in the United States. 'When I look back I realise that I really like living in Europe. This is true for me. But we do not need people to love the EU. People just need to understand that it is necessary, perhaps more than ever, and that it needs to work well. That's essential.'

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You need local, regional, national and European systems that take (...) To do so we need efficient decision-making mechanisms. That is all...”

Back to the future - European values and achievements of the past as inspiration to get the basics right

Interview with Kamila Gasiuk-Pihowicz,
Member of Parliament, Poland

By Kamila Lepkowska and Gaston Moonen, Directorate of the Presidency



Source: Kamila Gasiuk-Pihowicz

Kamila Gasiuk-Pihowicz

The EU has a unique architecture: it is characterised by a close interdependency between the Union level and the Member States, but also an interdependency between the individual Member States that make up the Union. The intention, in the long term, is to facilitate a cross-fertilisation of values, ideas, policies and objectives. How does this idea of a two-way street work out for a Member of Parliament working at national level? How does the EU fuel his or her actions and strategic thinking? And can national parliamentarians get their message across to Brussels on strategic issues for their home country? We interviewed Kamila Gasiuk-Pihowicz, Member of Parliament in the *Sejm*, the Polish parliament, for the party *Civic Platform*, for several years now the main opposition party in the *Sejm*. She makes it clear that long-term considerations may easily be taken over by short-term concerns, the more if they relate to some basic building blocks in a society.

Aligning personal with societal ambitions

Strategic thinking is something engrained in political life. After all, you go into politics to achieve something for your electorate, and most often the road is long and difficult. Kamila Gasiuk-Pihowicz became a Member of the *Sejm*, the Polish parliament, in 2015 for her previous party *ModernPL* (currently part of the joint opposition parliamentary fraction *Civic Coalition*). Initially, she was not aiming for a political career. 'I trained as a lawyer and as an economist and worked as a lawyer representing clients in court. Gradually, my ambition changed to doing something with a wider social impact. In 2013, I joined the office of the Polish ombudsman, dealing with health care issues and migrant rights, rather sensitive topics, requiring a sense of empathy.' She explains that her work at the ombudsman's office made her realise how much better public services could work if certain new solutions were put in place. 'To be able to do so, I realised that the most efficient way towards such change would be through politics. Being in politics would enable me to propose and hopefully change something in a formal way and try to change the reality.'

So much for strategic planning to improve the functioning of public services, because the reality turned out to be different. 'Instead of realising my initial plans such as improving the efficiency of public institutions, strengthening the protection of patients' rights or improving the quality of specific legislation, I was forced to focus on defending the foundations of Polish freedom, which, in my view, relates to the rule of law, the division of powers and the upholding of democratic values in institutions.'

Priorities change when the house is on fire

Kamila Gasiuk-Pihowicz underlines the importance of reinforcing democracy in Poland: 'Defending democratic standards has become more important than the development of the country. Which is really sad, because we have lost several years of development. Right wing populism is an issue in many European countries, not only in Poland.' She is convinced that in the end she and her colleagues will be able to defend the foundations of democracy in Poland. 'In this context the European institutions are of utmost importance to defend, together with national institutions, common European values.' Kamila Gasiuk-Pihowicz underlines that this comes at the cost of designing long-term strategies for Poland. 'It is difficult to think about expanding and renovating your house if you have a fire around that same house, which threatens to destroy all you have achieved.' But she recalls something she learnt from a professor at a Polish university. 'He told me: "Kamila, please remember that 20% of your time should be devoted to long-term issues." I know now that it is extremely difficult to do this, but I keep it in the back of my mind.'

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In her daily work at the Sejm, Kamila Gasiuk-Pihowicz chairs the Committee for improving the efficiency of the Polish judicial system. In cooperation with non-governmental organisations, with associations of lawyers and judges, she is preparing a long-term strategy on how to improve the efficiency of the judiciary in Poland, besides rebuilding the independence of institutions such as the Constitutional Tribunal, the Judiciary Council or the Supreme Court. 'Because, from the citizens' point of view, a key problem relating to the Polish judicial system is its inefficiency.' She realises that other Member States also face such efficiency problems. 'But in Poland we have added, for the last ten years, new types of cases to be settled by the courts. And this creates a situation where we are sometimes waiting for over one year even for a first hearing in a court. And the ruling party's focus on personnel changes only has not helped to solve this problem, on the contrary.'

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... a key problem relating to the Polish judicial system is its inefficiency.”

Kamila Gasiuk-Pihowicz sees the creation of new law, instead of parliament checking the implementation of existing law, as a major concern. She gives an example. 'In 2015 the Polish parliament produced, if I am correct, 30 000 pages of new law. One of the non-governmental organisations calculated that to just read it – so not trying to understand and implement what is being proposed – would take seven hours per day, for a whole year.' She adds that for 2016 the situation only changed marginally, with 32 000 pages of new law. 'And most of the time you only add something new to the laws already in existence. And reading it is not enough, as a law-maker you have to understand it, to discuss it, etc.' But in her view that is not done enough, which makes law-making in Poland rather weak. 'For example, I remember that for a crucial act relating to the Supreme Court, it went through Parliament in 72 hours, without any discussions with the stakeholders that should implement this law in the future.'

Agreement on common values is a condition for long-term strategic thinking

Kamila Gasiuk-Pihowicz believes that in countries where politics is not as confrontational as in Poland, it is easier to think in terms of long-term strategy. 'It helps a lot if there is social and political agreement on the main objectives of a country, or when the governing majority leaves enough space for serious discussions in Parliament. Unfortunately this is not the case in Poland.' She gives a concrete example where an achievement of the past is used to divide the country instead of uniting it. 'Take pension reform, which is quite telling. The government missed the opportunity to build on a difficult achievement by the previous government and instead used people's fear and reversed an important reform by lowering the age of retirement.'

At the same time, she observes that the opposition in Poland is united around at least some key strategic objectives, in particular those relating to democracy and the rule of law. At the same time, she sees this lack of shared long-term objectives also becoming a problem elsewhere in the world. 'The Capital riots in Washington, D.C. are obviously one of the most dramatic expressions of it. Politics is moving away from factual policy discussions to focus more on emotions and subjective realities. This is not the best environment to foster strategic thinking among politicians.'

“ Politics is moving away from factual policy discussions to focus more on emotions and subjective realities. This is not the best environment to foster strategic thinking among politicians.

The lack of strategic thinking leads to frustration for Kamila Gasiuk-Pihowicz. 'This was particularly the case when I became an MP. The governing party did everything to avoid serious and factual discussions, pressurising procedures and getting acts voted upon in the middle of the night. Nevertheless, I tried to keep strategic thinking alive, designing systemic solutions together with non-governmental organisations.' She finds it is sometimes a frustrating process, considering the progress made. 'But we need to do it, step by step, for example by bringing insights from scenarios to the public's attention, which really engage people's imagination to envisage the consequences of our current actions for the future. This works particularly well regarding, for example, climate, or our ageing populations, where facts and figures give insights into long-term trends.'

One of the long-term goals of the past was Poland's path to becoming an EU Member State, which it did in 2004. Kamila Gasiuk-Pihowicz recalls her enthusiastic support for getting certain Polish politicians elected to the European Parliament. 'Polish involvement in such a great project as the European Union – that was something to be politically active for. And I think that most of the Poles today appreciate Polish membership of the EU.' She explains that Poland has changed a lot since it became a member of the EU. 'We can see this in changes related to roads, bridges, renovations, thousands of small buildings and improvements. All this shows how big the impact of the EU is at the financial level, and many people work in projects created by those investments, which could only happen as a result of money from the EU budget.' She adds that while the former government gave credit to the EU for (co)funding such projects, the current government is doing the opposite. 'However, a lot of investments could simply not have happened without this EU money, but nobody is mentioning this anymore.'

“ ... a lot of investments could simply not have happened without this EU money, but nobody is mentioning this anymore.

Kamila Gasiuk-Pihowicz is fully aware that on other topics, which she considers fundamental to being a member of the EU, some Poles are less convinced. 'Some polls indicate less enthusiasm for issues such as being a member of the euro zone, accepting immigrants into Poland, or granting more rights to the LGBT community. The ruling government party is highlighting these topics to build opposition to the idea of Poland as an EU Member State. Fears and emotions related to such topics are used to convince people of the idea of a *Polexit*.'

Comparative assessments to identify effective ways forward

When asked what public auditors can do to provide more information and visibility on progress, or the hampering of it, regarding more immaterial issues, such as the rule of law, Kamila Gasiuk-Pihowicz does not have to think for long. 'As national politicians we expect from auditors, such as the ECA, that they should provide us with examples of EU added value. Concrete examples – facts, figures, evidence – on what has been achieved with EU aid and where further improvements are feasible.' Her wish also shows she is thinking along economic lines. 'What I would find useful is an analysis of the cost of non-Europe in the context of, for example, Brexit. We hear from representatives of different sectors in the UK that they were not really aware of the implications. I think here objective assessments would be most useful when discussing these issues with citizens. A useful product from the ECA could, for example, be a cross-country assessment of the implementation of one or more policies, comparing them with national solutions so we can learn from their successes and failures.'

“ ... we expect from auditors, such as the ECA, that they should provide us with examples of EU added value.

She sees a role for external auditors at both the national and the EU level. 'For me, as a member of the opposition in the Sejm, it is very important to use the work of our national audit office, the NIK. Their reports provide me with a key tool to exercise parliamentary scrutiny, even more important in a country in which the government is trying to exercise ever greater control over institutions.' She explains that, regarding the NIK, the government has also tried to 'politicise' this institution. 'However, a political conflict within the current governing party, specifically between the current President of NIK (nominated by the governing party) and the government, opened the door for NIK to focus on issues which are uncomfortable for the government. Political rivalry makes its control function more effective. I use the reports the NIK provides on the functioning or malfunctioning of public institutions quite often. Sometimes they can have great impact in political discussions.'



A useful product from the ECA could, for example, be a cross-country assessment of the implementation of one or more policies...

Kamila Gasiuk-Pihowicz identifies another area where a report by the NIK would be most useful: crisis management in relation to the COVID-19 pandemic. 'NIK auditors could look at the management of the hospitals, the flow of patients, purchases of equipment, scrutinise the official statistics on the development of the pandemic, etc. Based on such information, evidence-based, we can make political decisions and better define expectations, both what we expect of institutions and of citizens.'

Rule of law affects everything

As an MP, Kamila Gasiuk-Pihowicz has been very active when it comes to gender equality and the rights of minorities. She thinks that the EU has a key role to play, also on these non-economic aspects. 'The EU is not just a common market. If it is a community based on solidarity, it can only exist if certain core values are shared by all its Member States, by all its citizens. Yet one should not underestimate the economic impact either, for example regarding gender equality. That goes well beyond equality as a value; it is also about economic efficiency and full use of all the resources we have.' She further argues that inefficiencies in one Member State can have an impact on the others. This is particularly clear for her in the area of the rule of law. 'Companies can be active across the Union. Impartial judicial systems are the most basic condition for the functioning of the single market. Companies will not invest if they cannot be sure of a fair trial in another Member State. I would say that the EU can express itself more clearly on this issue than it does now.'



Impartial judicial systems are the most basic condition for the functioning of the single market.

She gives an example of this. 'Throughout the years I have seen strategic change, or progress, when it comes to the EU's approach to the subject of the rule of law. Several EU institutions have defended the principle values, and the issue has surfaced in numerous debates the European Parliament initiated on the topic, also in view of the recent issues emerging, in particular in Poland and Hungary. The European Court of Justice has created solid jurisprudence, showing that the independence of courts is protected by the EU on the basis of the EU Treaties. The European Commission has also started cyclical reviews of the rule of law.' She considers this to be substantial and much appreciated progress.

However, she also recalls a situation related to a recent hearing before the European Court of Justice regarding the Polish situation. 'It concerned an independent judge, Tuleya. In November 2020, the Disciplinary Chamber rescinded his immunity, although according to the interim measures by the Court of Justice of the EU, the Chamber should have remained suspended and did not have the right to take such actions. Unfortunately, for a while now already, the members of the Chamber have been disregarding this measure by the European Court and have continued their activities. As a result, judge Tuleya has been arrested and now finds himself in prison. He is being silenced because he fought for an independent judiciary.' In her view the pretext for his case being dealt with by the Disciplinary Chamber was the fact that he handed down a judgment which was uncomfortable for the current governing party, revealing details of how the constitution had been violated during a political crisis in December 2016.

Kamila Gasiuk-Pihowicz points out that a rather symbolic exchange took place during the session on Judge Tuleya's case between a judge of the European Court of the EU and a representative of the European Commission. 'The judge asked "What have you done during this time –relating to this judgment in Poland – from April 2020 until December 2020, where we are at the moment. What did you do on this subject?" It was a very stressful moment for the representatives of the Commission, because there was complete silence. Eventually, a representative of the Commission answered that there was only one document exchange in that time between the Polish government and the Commission. Quite telling.' She believes that, with such actions against independent judges, the independence of the judiciary is reaching a dangerously destructive dimension. 'The EU needs to act on it now.'

Kamila Gasiuk-Pihowicz is looking forward with great expectations to the new Next Generation EU recovery plan, which has respect for the rule of law as a conditionality. 'It will be another instrument with very clear financial implications which will allow the European Union to look closely at the independence of the judicial system in the Member States for the sake of protecting EU financial interests, but also to protect the citizens of the Member States.'

“ [on the NGEU instrument] ... will allow the European Union to look closely at the independence of the judicial system in the Member States for the sake of protecting EU financial interests...

She explains that nowadays things happen in Poland which were unimaginable a number of years ago, or when Poland joined the EU in 2004 after meeting the Copenhagen criteria. 'It started with the Constitutional Tribunal to which the current parliamentary majority has appointed judges in an illegal way. Several other judicial institutions have been taken over by political appointees. And the judges who stood up for the rule of law have been personally threatened. Opposition rights have been restricted, even in the parliament.' Nevertheless, she is hopeful for the future. 'I am convinced that in the end the vast majority of the Polish people will stand up for the values of democracy and the rule of law. For example, the recent demonstrations for women's rights gave me another sign of hope. In many smaller cities in Poland the demonstrations were absolutely unprecedented.'

Various incentives to trigger change...also on the basics

Kamila Gasiuk-Pihowicz is also a member of the Parliamentary Assembly of the Council of Europe in Strasbourg. The Assembly has highlighted three elements as key for the upcoming years – artificial intelligence, respect for democracy and human rights, and the rule of law. Kamila Gasiuk-Pihowicz thinks that this can certainly help to bring change for the better in her home country. 'The strongest tool of the Council of Europe is the judgments of the European Court of Human Rights. But I think the visit of the Venice Monitoring Commission to Poland is also important, as since last year Poland is being monitored by the Council of Europe. Perhaps this will not have an immediate impact but it helps to raise awareness about the government's actions on the law.'

She underlines that the EU has stronger tools to trigger change, simply because they are linked to substantial financial resources. 'To be clear: Poland needs resources in times of crisis, when many Member States rely on EU funds to stimulate the recovery process. For Poland this is a key factor, because in the years of economic recovery the current government forfeited the opportunity to save money for more difficult times, and therefore Poland currently does not have an economic buffer to protect it against the crisis. The fear of losing EU financial funding is a very strong corrective incentive.' However, Kamila Gasiuk-Pihowicz has not yet seen any concrete proposals for projects to be financed by Next Generation EU funds. 'Currently Poland is focusing on vaccination, that is the first priority. There is no consistent strategic plan on the table to ensure a long-term economic and social recovery. Unfortunately, the ruling party is much more focused on who will distribute that money than on the substantial issues, such as designing the programmes to use this money, identifying crucial investment opportunities that would effectively address the actual needs in our society and ensuring that the money will have an impact where it is most needed. We have seen a similar approach in the past, causing long delays in investments, and I am not too optimistic about the future.'

“ The fear of losing EU financial funding is a very strong corrective incentive.

A similar sentiment resonates when we ask Kamila Gasiuk-Pihowicz about her perspective on the future for the longer term: the fear that a lot of time and energy will have to be spent on discussions, if not battles, regarding the judicial system. 'We see at the moment that huge pressure is being brought to bear on judges, because currently they are still the only independent authority in Poland. For example, after the recent mass demonstrations, thousands of people are facing criminal prosecution. We see that through this the Polish government is still trying to create huge pressure on judges.' Sadly, she observes that she will have to focus on this kind of issue relating to judicial independence, more firefighting in society than building it. Notwithstanding these developments, she sees potential for positive change, also regarding the judiciary. 'For example, as the opposition, we are working on specific legal solutions aimed at improving the efficiency of the judicial system. I am currently consulting with non-governmental organisations and other stakeholders on a draft proposal for a law to transfer competence for some types of cases from the courts to notaries.'

Nothing can be taken for granted

For Kamila Gasiuk-Pihowicz it is clear that democracy and the rule of law is not a given fact in her country but needs to be fought for, over and over again. 'For me politics needs to be based on values, ideas, freedom, courage, responsibility, social dialogue, openness, transparency, integrity, respect for the law. I truly believe that these values are shared by many of us in Poland, in fact by many of us in Europe. This claim is not only a historical one, but also based on what has been happening on our streets for the last five years, particularly during the last months. *Solidarność* was also based on these values and even now they inspire those who demonstrate, who support courts, who support women's rights, etc., something that seemed obvious for the last 25 years and yet we have to fight for it again. We never thought that we would need to work so hard again on these basics for our society.'

“

... something that seemed obvious for the last 25 years and yet we have to fight for it again.

The issues Kamila Gasiuk-Pihowicz now deals with seem to be rather far from the focal points she had in mind when going into politics with the party ModernPL, i.e. better governance, health care and economic liberalism. She fully realises this and this makes her even more determined, since she knows it was possible in the past. 'For over two decades Poland has been a symbol of a successful democratic and economic transition. I was born in a communist country and went to school in a free Poland which seemed to be on its way to joining the institutions of the Western world. I finished my studies in a country which was a full member of the European Union and NATO. I simply wish that the next generation can focus on developing our country's prosperity and finally stop reconstructing and interfering with its European foundations and its future within the Union!'

“

I simply wish that the next generation can focus on developing our country's prosperity and finally stop reconstructing and interfering with its European foundations...

Supreme audit institutions and accountability: opportunities, challenges and capacity

By Professor Claudio M. Radaelli, Silvia Dell'Acqua, and Gaia Taffoni,
European University Institute



Societies change and so do concepts and expectations about the governance of these societies. Accountability is such a concept, where expectations and demands from citizens and stakeholders have evolved over time with an increasing focus on sustainability aspects, calls for more regulatory coherence and increased awareness of citizens' rights. Claudio M. Radaelli is Professor of Comparative Public Policy at the School of Transnational Governance (STG) of the European University Institute, located in Fiesole, Italy. He has a strong track record in training public managers on how to use regulatory policy instruments. Silvia Dell'Acqua and Gaia Taffoni work at STG, Silvia as an Executive Education and Training Specialist and Gaia as a Research Fellow.¹ In their contribution, they analyse the evolution of the concept of accountability and its consequences for public audit institutions, for their activities and their strategic orientations.

Change as an opportunity

'Things will never be the same again'. Here is an argument, close to a slogan, we have been hearing since March 2020. It points to the necessity, for some even inevitability, of paradigmatic change. In turn, changes in policy paradigms (such as sustainability, public health, modes of production and work) filter down to granular implications for our professions and the role of institutions in society. Change is challenging, but it also provides opportunities.

In this article we focus on the latter. We argue that this is a good time for public auditors, also in supreme audit institutions (SAIs), to re-define and scale up their mission in today's institutional landscape and in society. In particular, in our article we define public accountability, point to the three dimensions of *information*, *justification* and *consequences*, and identify the tools that support these dimensions in the context of the better regulation agenda.

¹ Claudio Radaelli and Gaia Taffoni wish to acknowledge the support of the European Research Council (ERC), Project Procedural Tools for Effective Governance (Protego), award no 694632.

This vision of public auditing for accountability benefits stakeholders. It contributes to democratic oversight by putting public auditors at the forefront of a global transformation. To do so will have implications for capacity building and training.

Who is to be held accountable and how?

In the [ECA 2021-25 Strategy](#) adopted in early 2021, Goal No 1 is about 'Improving accountability, transparency and audit arrangements across all types of EU action.' How can we pin down accountability in the context of the ECA Strategy? How does accountability influence the ECA's strategic outlook? As standard definitions have it², accountability occurs when A is accountable to B via a forum. A policy process with a meaningful, effective accountability formula entails three ingredients or moments where the relationship between A and B 'in the forum' is defined: *information*, *giving reasons* and the possibility of *consequences*.

Let us take at face value the argument that 'things will never be the same,' without delving into its admittedly slogan-type format. In a context of paradigmatic change, the very role of public auditors and supreme audit institutions (SAIs) in the institutional and social landscape needs to be recalibrated at the level of ambition envisaged by Goal No 1. Then, the question arises: How does accountability apply to the auditing tasks of SAIs? Are public auditors ready to accomplish these tasks? Who is accountable to whom across the phases of information, giving reasons and (the possibility of) consequences?

We suggest two starting points: the first is to consider accountability across the whole policy process, and therefore approach accountability in different stages of the life cycle of public policies. The 'stage model' of the policy process is little more than a heuristic and is to some extent unrealistic, but it helps to focus the mind on specific moments of the life cycle of policies. We will then examine *when* A is accountable to B, imagining the life cycle of a rule, from ideation to implementation and final evaluation.

The second starting point is to focus on specific *tools* through which regulators and governments are accountable, not only to elected politicians but also to citizens and stakeholders. This is necessary to enhance the social relevance of public auditors. Here we concentrate on the tools that belong to the strategy called better regulation.³ Accordingly, we will analyse how the better regulation tools provide forums where A is accountable to one or more actors or enfranchised interests. In the remainder of the article, we appraise the state of play and make proposals by elaborating on the two starting points, with observations on challenges as well as opportunities and needs.

State of Play

International organisations, such as the OECD⁴, have observed that public audit institutions are best equipped by their experience in the domains of budgetary planning and execution, internal control and 'value-for-money' audits. Some audit institutions have also moved towards appraising systemic whole-of-government tools, such as consultation, risk management, ex ante impact assessment⁵ and ex post legislative evaluation.⁶ These tools reveal an underlying model where public audit moves from classic functions to new ones, such as the auditing of regulatory oversight and foresight. Elaborating on this, there is an opportunity for SAIs to audit accountability tools across the formulation, implementation and evaluation stages of public policies, that is, across the whole policy cycle. By extension, we should also consider tools oriented towards open data, freedom of information acts, or the accountability functions provided by the Ombudsman.

2 See, for example, Bovens, M., *Analysing and assessing public accountability: A conceptual framework*, European Law Journal 13(4): 447-468, 2006.

3 See Listorti, G., et al., *The debate on the EU Better Regulation Agenda: a literature review*, JRC Science for Policy Report, Brussels, 2019; and OECD. *Better Regulation Practices across the EU-28*, Paris 2018, OECD Publications.

4 OECD, *Supreme Audit Institutions and Good Governance*, Paris 2016, OECD Publications.

5 ECA special report 3/2010, *Impact Assessments in EU institutions: Do They Support Decision-Making?*

6 ECA special report 16/2018, *Ex-post review of EU legislation: A well-established system, but incomplete*.

This points towards a governance model where governments and public institutions operate in a context of administrative processes and policy instruments that are increasingly geared towards accountability to a plurality of actors: members of parliaments, but also citizens, the media, and social/economic interest groups. The notion of 'accountability to whom,' then, takes on new meanings. Before we explore these meanings, we need to clarify the concept of better regulation and why we refer to the policy cycle.

Better Regulation

The policy process cycle – as mentioned – is a heuristic device, a metaphor with several limitations. Few policies start from scratch. Rare are the cases of policies that are created in linear ways, from problem definition to decisions followed by implementation and evaluation. More often than not, instead of linear processes we have repeated loops of phases, where alternatives, actors and venues change.⁷ Political decision-making is not condensed in one decision, such as approving a law. It carries on to implementation and enforcement.

But for all its limits, the notion of the whole-of-process or 'whole-of-life approach' tells us that regulations have their one life, and they should be appraised at different moments. The better regulation strategy of the OECD and the EU is attractive because of its promise to manage rules across the whole process, as opposed to ad hoc management. How this management is done is via the better regulation tools, such as stakeholder engagement, foresight, regulatory impact assessment, ex post evaluation, and regulatory offsetting.

Other tools that are not usually considered within the better regulation agenda have their own role to play in the policy process. For example, freedom of information acts provide access to regulators and regulatory processes to citizens – and therefore create the preconditions for exercising the right to access. Judicial review allows citizens and firms to enter courts in the dialogue between a stakeholder and a regulator - be it an independent regulatory or a government department.

These specific tools provide for other ways to enhance accountability - creating rights for citizens and stakeholders and imposing on governments and regulators obligations to answer (indeed, we can talk of 'answerability' as quality of accountability). It follows that A is accountable to B through a web of rights and obligations, or, better, the right to ask for information and the obligation to give reasons for the choices made. Recall that information and giving reasons are two of the three ingredients of the accountability formula.

Plural accountability

With this double move (whole-of-process and tools-specific), we move towards a plural concept of accountability. Classic accountability of citizens to politicians is secured by free, openly contested elections. But this classic moment cannot define accountability exclusively – not in a scenario of major, paradigmatic change. And indeed, there are other granular moments where accountability takes place.

In the early stages of the policy process, consultation provides a forum where regulators are accountable to the stakeholders – here the information flow is two-way: regulators formulate initial options and ask for input, stakeholders provide evidence to those who will make the choice.

Always at the stage of policy formulation, impact assessment provides a forum where those who design regulations are somewhat accountable to the social science of economists. This explains why in some countries the impact assessment is signed off by the chief economist who has to certify that the analysis meets professional standards. Here we see two ingredients of the accountability formula: information - because impact assessment is a public, evidence-based document - and giving reasons - because impact assessment justifies the choice of an option, on the basis of evidence and various tests and analyses.

⁷ Kingdon, J., *Agendas, Alternatives and Public Policy*, New York 1995, Harper Colling.

And the plural dimension of accountability can be extended further. Freedom of information creates a forum where there is accountability to citizens in general. The only boundary distinction here (which, by the way, varies by country) is whether a citizen is directly affected by the information he or she is seeking to obtain. The Ombudsman can intervene at any stage asking for information and justification: in the dyadic relationship between A (the public body) and B (the individual), the Ombudsman intervenes as a third-party enhancer of the accountability mechanism.

There is also a dimension of accountability to abstract categories instead of individuals or firms. We can in fact talk of accountability to science. This appears in the tools of foresight and risk management. Interestingly, last year the United Nations published a detailed General Comment⁸ on the right to science, explaining how this is the right of all citizens and must be respected by public institutions.

In foresight and risk management, the challenge is to balance precaution with innovation. For the public auditor, this raises questions about how to audit the balancing act. One way is to consider what the evidence says about impact on dynamic efficiency and on innovation more generally. Another is to establish whether a precautionary choice can and is indeed revised as evidence becomes available over time. A third is to fine-tune auditing skills to scrutinise accountability to science. In major decisions about risks, regulators are accountable to not just one generation, but to the next generation, if not to the planet as a living entity. We cannot imagine a form of accountability wider than this – and science should be part of this dimension of accountability.

Reconciling short-term specific costs with long-term overall benefits

Evidence-informed policy and balanced values are also the key concepts that take us to the case of appraisal of new regulations with cost-benefit asymmetries. This form of appraisal, typically carried out with the tool of regulatory impact assessment, is particularly tricky when costs are very tangible, concentrated in one or a few sectors, and short-term, whilst the benefits are diffuse and long-term - that is, the benefits fall on all citizens and even the next generation. Politically, it is difficult to mobilise categories such as 'next generations' and 'all citizens', whilst those who resist short-term concentrated costs will find it easier to mobilise against the regulation.

The fact is that at this moment in time several European governments and the European Union in particular are close, at least in their official policy guidance, to launching these types of policy. Paradigmatic policy changes like the Recovery and Resiliency Plans, the Green Deal and the Digital Single Market, but also the plans for a fair level playing field in international corporate taxation, are designed with the explicit assumption of accountability to diffuse interests and the next generations. The following question arises: how would an auditor 'look at' these emerging forms of accountability?

Yet again, it helps to approach this question at the level of evidence-informed tools. Robust evidence can show that these regulations are welfare-improving for society and the economy in the long term and therefore justify concentrated short-term costs. But again, we find the two ingredients of information and explanation mentioned above. Take away this type of accountability, and the asymmetry in the distribution of costs and benefits would lead to intense political pressure against rules with short-term negative effects such as costs in specific sectors.

However, two issues emerge. One involves imagining the tools in a new scenario geared towards sustainability. If sustainable development is the new paradigm, the performance of the tools that intervene at various stages of the policy process should be measured on the basis of how much they contribute to sustainable development.⁹ Furthermore, auditors should also look at whether the tools come together (or not) in a coherent ecology geared towards sound policy-making.¹⁰ This way, the whole-

8 Committee on Economic Social and Cultural Rights - United Nations, *General comment No. 25 (2020) on science and economic, social and cultural rights* (article 15 (1) (b), (2), (3) and (4) of the International Covenant on Economic, Social and Cultural Rights), 2020.

9 Radaelli, C.M, *Guidance Note: Regulatory Impact Assessment*, UN-DESA, New York 2021.

10 Radaelli, C.M, *Sound Policy Making in the Ecology of Sustainable Development: Eight Guidance Notes in Search of Practice*, STG Policy Papers, European University Institute 2021.

of-process tools permeate the overall modus operandi, and become, with the shift to sustainable development goals, whole-of-society.

The other issue is about the third ingredient of the accountability formula. This is the possibility of *consequences*. Good things do not just happen because they are good. There has to be oversight of the system. Put differently, the tools and their integration in a paradigm such as sustainable development need their own custodians. This implies the existence of regulatory oversight institutions. For the public auditor then, the mission should be widened to appraise the quality of these institutions of regulatory oversight. Previous ECA audits, such as those presented in special reports 3/2010 *Impact Assessments in the EU institutions: do they support decision making?* and special report 16/2018 *Ex-post review of EU legislation: a well-established system, but incomplete*, have considered tools and institutions jointly.

The role of public auditors

What are the implications for the role of the public auditor? To limit audit to the performance of an individual tool has been the classic strategy so far, for example with scorecards for the evaluation of regulatory impact assessment. But today the challenge is to audit the value of tools in terms of their contribution to integrated regulatory management. This means an attitude geared towards whole-of-government, whole-of-process, and, thinking of the final goals in terms of sustainability, whole-of-society.

The scale of complexity becomes steep. Crucially, public auditors are called to measure the capacity to achieve these goals, and make recommendations in their reports on how to achieve this type of capacity. This invites an extension of the skills-set generally offered in training modules for public auditors. The scene is set for a new generation of public auditing: the tools and some experience exist, but training programmes will have to address accountability more explicitly.



Strategy development - a public sector consultant's view

By Manj Kalar, Kalar Consulting



Source: Natali Mis/Getty images

Developing strategic plans is not simply about using standard tools and textbook management techniques but to identify the essential 'exam' questions, key stakeholders, environment and understand the underlying culture. This is what Manj Kalar, independent public sector consultant with Kalar Consulting, experienced when providing advice and support to diverse public sector clients from all over the world. Below she shares some of her advice and her experience.

Risks are part of a strategic outlook

Management thinking guru, Peter Drucker, saw strategy in terms of 'decisions we make today about a future that is inherently uncertain.'¹ Most importantly, Drucker recognized that strategy cannot eliminate risks so need to take the 'right risks.' In other words, it is the art and science of making good decisions about the future.

In this article, I will share my observations, approaches taken, and lessons learnt from two most recent medium-term projects that I have been working on, overlaid with complexities of remote working, as have many, during the pandemic. Project A relates to a European EU accession country and project B to an African country. Both are seeking to implement major change. My role was to develop a strategy and detailed plans for both to ensure their objectives were achieved.

Project A was to develop a Country Strategy and detailed Action Plan to implement accrual accounting (based on International Public Sector Accounting Standards (IPSAS²)). This was part of an overarching aim to improving public financial management. This has been a long-held ambition and a key enabler to government by providing more information such as committed spend, rather than only cash paid and better insights on

¹ Peter Drucker on strategic planning, [Science of Strategy Institute](#)

² [International Public Sector Accounting Standards](#) are devised by the IPSAS Board who is aim is to improve public sector financial reporting worldwide through the development of IPSAS®, international accrual-based accounting standards, for use by governments and other public sector entities around the world.

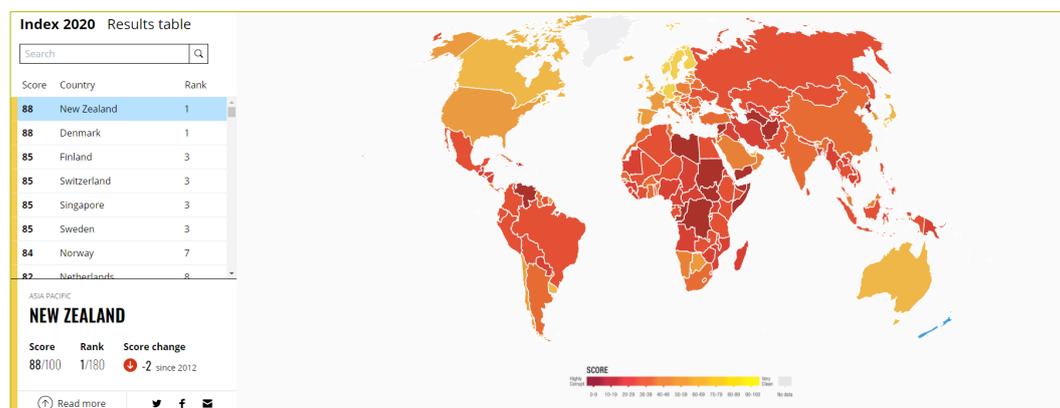
what government is spending money i.e., what assets does government hold, how are these funded etc. Knowing and showing where and how government income (largely from taxpayers) is used is imperative to building and maintaining trust with the taxpayer by providing greater accountability and transparency.

Project B was, like Project A, to develop a strategy and detailed plan to implement IPSAS for the government tax administration entity. This was part of a wider government reform programme led by the Ministry of Finance for the entire central government sector. Identifying what revenue is due to the government is essential when seeking to deliver better public financial management. This information is also essential to identify areas to focus compliance and debt management activity as well as support tax policy development. Enhanced information delivers transparency and helps build trust.

Trust is the cornerstone

Trust is at the heart of the contract between government and the citizen; any erosion in trust will have a chilling effect on the public as can be seen from various countries around the world. The recent publication of [Transparency International's annual global corruption perception index](#) ranks 180 countries on a scale of 0 (highly corrupt) to 100 (clean) representing the perceived level of public sector corruption. In 2020, over two-thirds of countries had a score less than 50 and no country was clean. The top five remained the same with New Zealand and Denmark sharing the top spot for the second year in a row with scores of 88 (see **Figure 1**). Furthermore, Transparency International found that in the year marred by the pandemic, corruption has further undermined public health, democracy and ultimately cost lives. Measures taken by governments, often necessarily at pace, lacked transparency and served private sector than public good.

Figure 1 - Global Corruption Perception Index 2020



Source: Transparency International

Approach to developing a strategy

To develop strategy, I adopt a standard three stage approach (see **Figure 2**):

Figure 2 - Three stage approach to developing strategy



Stage 1: Analyse the context and environment

There are many challenges to overcome, the first is truly understanding the context: by getting to the heart of the issue and identifying the 'exam' question. This question is usually not shared with a consultant as it may be embedded consciously or unconsciously in the culture of the team, organisation, or country. However, success is unlikely if the real issue is not identified: what are the drivers and why do they want to embark on such a challenging change initiative that will take time, money, and significant resource?

For country A, the project would make transparent difficult issues such as true cost of long-term commitments through the previous enthusiastic use of Public Private Partnerships (PPP) to develop much needed infrastructure. For my client, this was relatively easy: Country A wishes to access to the European Union. To do so a prerequisite for any EU accession country is to have good financial controls as per the chapters of the *acquis*³ and adopt international recognised standards.

Identifying the real why (or the 'exam' question) is important to determine commitment to the cause. One frustration is that strategies are developed and simply confined to a library where these remain untouched, gathering dust. Identifying whether there is a real drive is so important especially when there are the inevitable bumps in the road as challenges arise or newer shinier projects come along demanding attention, or there is a change in strategic direction with the arrival of a new governing party.

Often there will be more than one 'why' as different stakeholders will have different expectations. Each stakeholder will have their 'what's in it for them.' Identifying this is important part of the context and environment and will result in success or otherwise if it is not correctly identified.

One lesson from this project was that there were several key stakeholders, and, on reflection, more time should have been devoted to developing relationships with each to ensure the 'unsaid' was captured. Completing the project remotely did not help. This resulted in conflicting messages that made the next stage more difficult.

³ See European Neighbourhood Policy and Enlargement Negotiations, [Chapters of the *acquis*](#), Chapter 32: Financial Control.

Stage 2: Identify strategic options

Once the why has been identified the next question is *how*, i.e., what are the strategic options? There are various management tools such as *5 Whys*⁴ or my personal favourite: the root cause analysis. Invariably there is not only one problem to be solved and delivering benefits from day 1 helps build commitment to the project.

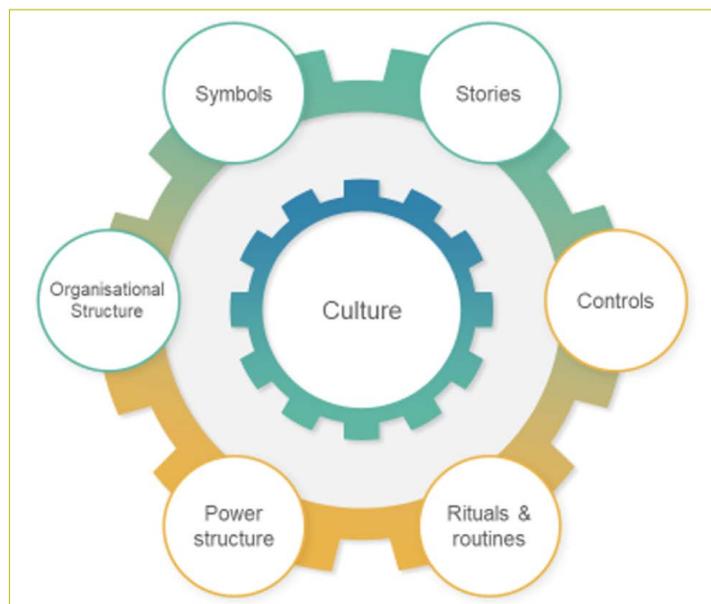
For example, for client B I was required to develop a strategy and detailed plan to prepare and produce accrual information for the government administered income i.e., tax revenue. The client will be able to gather information on how much tax is due for each tax regime rather than the current approach which is to record cash received and repayments made to taxpayers. During the root cause analysis, various other issues were identified with data quality and completeness, IT systems and processes that impacted on management's ability to accurately identify and record tax income. This is having an adverse impact on the sovereign fund which is used for funding of other government ministries' general expenditure rather than as it should be used as for emergencies.

Stage 3: Evaluate and select strategic options

The final stage is to assess all information gathered and the strategic options to evaluate which is the best option for the client. There are various tools and techniques available, such as risk analysis, failures models, impact analysis; or financial models such as cost benefit analysis or break-even analysis, net present value analysis; or decision trees and decision matrix analysis. However, the most important aspect to consider is culture and what is the appetite to change? Despite best efforts, as research shows most change projects result in failure and it is usually the result of not aligning the strategy with the culture. The consultant needs to quickly identify culture if there is any hope of making the project 'stick' and deliver.

Identifying the culture, best defined as the unwritten rules guiding 'how things are done when no one is watching,' is the single most challenging aspect of any change management project. Again, as Drucker said, 'culture eats strategy for breakfast,'⁵ therefore understanding the different links aspects that make up culture is essential. According to Johnson and Scholes⁶ in the cultural web it is a question of understanding six elements of an organisation to be able to devise a strategy that works.

Figure 3 - Johnson & Scholes Cultural Web: six aspects of culture



Source: Kalar Consulting Ltd adapted from Fundamentals of Strategy. Gerry Johnson, Richard Whittington, Kevan Scholes⁷

4 5 Whys is an iterative interrogative technique used to explore the cause-and-effect relationships underlying a particular problem. The primary goal of the technique is to determine the root cause of a defect or problem by repeating the question 'Why?' Each answer forms the basis of the next question.

5 Peter Drucker on strategic planning, idem.

6 [Johnson and Scholes Cultural Web](#).

7 [Fundamentals of Strategy. Gerry Johnson, Richard Whittington, Kevan Scholes](#)

Adaptation as core ingredient for resilience

In addition to culture, I aim to develop a strategy that can respond to and adapt with new information. The ability to be agile, pivot and course correct as required is so powerful in enabling the client to keep on track. Life seldom happens as expected and all the best strategies and detailed plans need to be elastic to accommodate change and enhance an organisation's resilience. Important is to think ahead of option B, C or even D.

For example, for client A the proposed approach was direct implementation of the IPSAS standards but if this became too onerous or not cost-effective then they would have the option to deviate as long as there was an independent governance oversight structure in place to evaluate any departure from the international standards. This approach maintained the integrity of the standards implemented and ensured transparency and accountability to the users of the financial statements negating any perception of manipulation.

Finally, of course, working in the public sector, the political landscape must be considered and solutions need to be future proofed and one way to do this is to focus on benefits that will be realised if the strategy is implemented, thereby removing politics.

I am privileged to work with a diverse range of people working across the globe for the public sector to 'make a difference' to the citizens of their jurisdictions. Advising on how putting a dot on the horizon can be reached effectively and efficiently, will depend on identifying the cultural landscape; approach to change evidenced through the success or failure of previous transformational programmes; and identify the 'exam' question that is the real driver for the change and develop a strategy that addresses this directly. Often what is presented in the 'brief' is not what is uppermost in the client's mind. As a consultant, I take it as my responsibility to get all information on the table on drivers and impediments to arrive at a realistic, pragmatic and achievable strategy to successfully reach the goal.

Redefining public sector audit scrutiny in a post-COVID 19 environment

By Michael Burnett, External Expert, European Institute of Public Administration (EIPA)



Source : Erhui1979/Getty Images

Major shocks can lead to substantial societal changes, as illustrated by the 2008 financial crisis and the recent COVID-19 pandemic. Often, they also matter for accountability as they change citizens' expectations as regards the work of public sector auditors and public scrutiny bodies using auditors' work for their oversight responsibilities and responsible for oversight of the quality of audit work. Michael Burnett, a UK Chartered Accountant by training, has been directing the European Institute of Public Administration (EIPA) training programmes in various aspects of public management, including public sector procurement audit, (a topic on which he co-authored a book published in October 2020). In his contribution, he discusses the changing roles the different players have in contributing to trust in the legitimacy and competence of government during these times of crisis.

Major challenges even before the COVID-19 pandemic

Even before the scale of the COVID-19 pandemic became clear, public sector bodies had been faced with significant financial, economic, social, environmental and security challenges. These challenges include cyber security and the maintenance of social security (i.e. the need to enhance social protection for vulnerable groups), demographic pressures, an increasingly rapid pace of technological change, increased data volumes derived from artificial intelligence and the scope for more rapid public scrutiny via social media.

Many of these challenges are not susceptible to short term resolution and thus public sector bodies have needed to balance the competing challenges and address both immediate needs and issues with important future consequences and to effectively prioritise their actions. This has led to tension between 'do something' pressure and change fatigue/risk avoidance and the temptation to 'do nothing.'

What have these challenges got to do with auditors?

These long-term challenges also explain why public sector external audit must be redefined. Traditionally, it has generally been characterised as being backward looking or, perhaps somewhat unfairly, referred to as 'arriving after the car crash.' But this no longer fits with public expectations and the role which public sector external auditors can play in building trust in legitimacy and competence of government at all levels.

A more forward looking audit...

Firstly, public sector external audit needs to be *forward looking as well as backward looking*. This means that its scope needs to include:

- assessing the entity's policy making processes;
- assessing the entity's budgeting and service planning process;
- auditing budgets and service plans to ensure that they are evidence based, linked to operational priorities and appropriately resourced to achieve the planned objectives;
- assessing through audit of systems and transactions how the entity complies in practice with legality, regularity, corporate social responsibility, and value for money considerations in a way which is sustainable over time in the implementation of its plans;
- verifying the accuracy of its budgetary control and service performance data;
- ensuring that corrective action is identified where necessary if plans are not being achieved;
- follow up to ensure actions identified are taken; and
- assessing the effectiveness of the entity's *ex post* evaluation processes to assess how far it is an intelligent learning organisation.

Forward looking also impacts on the *timing of audit reporting* which means determining when to report *ex ante* and during an operational process where this could alert executive management, political leaders and the Audit Committee to emerging risks which could be addressed before they materialise.

For example, in the case of audit of major procurements this could include external audit intervention at the procurement planning and preparation phase rather than after the contract has been awarded to avoid errors being made which cannot be easily rectified after a procurement has been launched.

More broadly, it could include external audit intervention at the system design stage for new systems to ensure, for example, that they are focused on the operational objectives they are intended to achieve, are being designed effectively with appropriate milestones, are appropriately tested before live operation, are piloted before up scaling and are capable of being audited (including both audit of controls and transaction outcomes).

A more risk-based audit...

Secondly, because not all entities have equal risk levels and not all transactions have equal risk levels the efficient use of public sector audit resources means that external audit needs to be *risk based* i.e. assessing:

- *entity risk* i.e. assessing matters such as executive governance and political leadership (including competence, ethical framework/conduct etc.), organisation culture (including attitude to external scrutiny and implementation of audit recommendations), stakeholder management, openness to innovation, approach to digitalisation (including ensuring that it is service priority led and is regarded means to an end and not an end in itself) awareness and application of corporate social responsibility, data security environment (including GDPR compliance and the accuracy of data held about citizens), financial and operational sustainability, approach to environmental sustainability, capability and remit of the internal audit function, supply chain security and diversity (including mission-critical supplies and services), HR policies and practices (including management of remote working), disaster recovery planning, past operational and financial performance (including incidence of fraud, corruption and failure to achieve targets for KPIs), reputational

risk (e.g. from social media platforms), possible risks from partnership ventures, reviewing the outcome of past audits and the outcome of peer audits of entities of similar size/with similar functions etc.;

- *systems risk* i.e. the capability of systems, processes and personnel responsible for them to identify non-compliance with legality, regularity, and value for money considerations (including adaptation to address control issues associated with remote working, the impact of distributed ledger technology and appropriate procedures to ensure that data cannot be improperly altered); and
- *transactions risk* i.e. the actual occurrence of non-compliance.

Risk based assessment needs to be undertaken in the context of both current risks facing the entity and *horizon scanning* of potential future risks, including peer co-operation, to identify risks facing similar entities within and beyond territorial boundaries.

A technology-oriented audit...

Thirdly, public sector external audit needs to *embrace new technologies*, such as data and text mining - which impact on the volume of data available, addressing the challenges needed to analyse and interpret the data (i.e. an environment where the challenge is determining which data is of greatest relevance rather than shortage of data), and reporting using techniques such as data visualisation.

A real-time audit...

Fourthly, public sector external audit needs to be *real time* i.e. having and making use of direct access to the systems of the audited entity and to the relevant segment of the systems of any service provider or supplier with which the audited entity has contracted service provision.

Who needs to do what to face these challenges - the role of public sector audit committees

While the main responsibility for ensuring proper accountability lies with the public body itself, external auditors and public sector audit committees (or bodies with equivalent functions) also play an important scrutiny and oversight role.

Clarity of roles between the three parties is key and may be defined as follows:

- *effective public sector management* is about setting strategy, translating the strategy into operational plans and ensuring that the operational plans are delivered within available resources. In doing so they need to balance management of financial resources, delivery of services to citizens and management of infrastructure in a way which secures value for money, focuses on citizens' priorities and ensures equality of access to services;
- *public sector external audit* should aim to ensure that public sector bodies act in a way which complies with the law (*legality*), complies with their own internal procedures which themselves are consistent with guidance on/peer examples of good practice (*regularity*), and manages available resources effectively (i.e. *secures value for money*) and *sustainably* (i.e. ensures that the entity considers how it will continue to ensure that it has the financial and operational means to continue deliver services within the public policy planning horizon); and
- *Audit Committees* can support the executive/board by providing oversight of operational planning, budgeting, financial and non-financial reporting, risk management, internal control, compliance, ethics, leadership, internal audit and external audit (see **Box 1**). Audit Committees can play a particularly helpful role in times of crisis, such as the current COVID-19 pandemic.

Audit Committees are a common feature in the private sector, but the audit scrutiny function is also important for public sector/state-owned enterprises, ministries or local government.

A recent report by the European Confederation of Institutes of Internal Auditing (ECIIA) shows that the way the audit scrutiny role is discharged across Europe in the public sector can differ quite significantly, with different remits relating to both external and internal audit.

At EU level, for example, some elements of this role are performed by its [European Parliament's Budget Committee](#) and some by its [Budgetary Control Committee](#). At national level the function can be performed by parliamentary committees such as, for example, in Ireland by the [Committee of Public Accounts](#). At sub-national level it can be performed by bodies called Audit Committees, for example those for local government, the police and fire sectors and health bodies in the United Kingdom.

Box 1 - Audit Committees: what are they?

Audit Committees are bodies appointed by and are part of the governance structure of public sector bodies at all levels of government. They are independent bodies made up of suitably qualified individuals, which are separate from the executive management of the public authority and which:

- oversee the governance of the entity's management and other officials, including the internal audit function i.e. how they plan and implement the activities of the entity;
- oversee the effectiveness of external auditors in how they audit the governance and operational and financial management of the entity.

What does this mean in practice for external auditors and audit committees in the post COVID-19 world?

What new issues or questions will the COVID-19 pandemic, for example, have brought up for external or audit committees? There are many – a non-exhaustive list of such questions for external auditors could include whether or not they have reassessed matters such as how the audited body has:

- re-defined the nature and possible impact of financial, operational and reputational risks which it faces;
- enhanced its resilience through more effective emergency planning and disaster recovery;
- reviewed its service delivery methods and working patterns (including management of remote working) in the light of the pandemic;
- reviewed the impact of the pandemic on its medium term financial strategy;
- reassessed the need for infrastructure and the nature of infrastructure needed;
- determined how to diversify its sources of supply for mission-critical goods and services; and
- enhanced its agility to respond to future shocks.

As regards the Audit Committee's scrutiny and oversight, they should have assessed how the external auditors address these issues, they should, for example, consider:

- to what extent does the assessment by the auditors of the response of the audited entity to the COVID 19 pandemic and other emerging trends accord with the Audit Committee's own assessment;
- how effective is the auditors' approach to horizon scanning of emerging trends and risks, including their use of AI;
- what actions did the auditors take to identify potential risks, assess the likelihood of their occurrence, assess the potential consequences of their occurrence, and evaluate the appropriateness of the audited body's response to these risks (e.g. prevention, mitigation, insurance);
- in their planning and implementation of their audit, did the auditors prioritise the examination of the audited body's response to the risks with the most serious potential consequences for it;

- were the auditors' actions based on appropriate timing of their interventions, allocation of sufficient inputs of appropriately skilled resources, effective quality control and timely reporting in an appropriate format to the entity, the audit committee and, where appropriate, other external parties such as regulatory, judicial or legislative bodies; and
- how did the auditors follow up their initial audit findings to ensure that audited body took timely and appropriate action in response to those findings, including reporting the outcome of the follow up to the Audit Committee.

None of this is easy for public sector Audit Committees or public sector external auditors. In particular, it will require a culture change for both and the willingness to learn from good practices.

No effective public sector external audit without proper oversight and scrutiny

External audits undertaken by qualified supreme audit institutions underpin the importance for independent judgement by those with the necessary legal powers for access to information, professional expertise and ethical standards of matters such as how a public sector entity determines its priorities, relates them to the allocation of resources, defines its service objectives, and how their achievement is measured via Key Performance Indicators (KPIs) and targets for them. In doing so it can help to mitigate the risk of capture of public sector scrutiny by interest groups with agendas not solely focused on better public governance.

In turn, effective oversight and scrutiny of external audit will help to ensure that external auditors redefine their role to set priorities for in the planning and conduct of their audit activities. The core of the audit scrutiny and oversight role remains the ability to ask appropriate questions and to ensure, by evaluating the answers they receive and the nature and scope of the evidence provided to support the answers, that the issues they raise have been effectively addressed by the public sector entity itself and that their auditors have confirmed this in their audit work.

But the discharge of the role of public sector external audit scrutiny and oversight is becoming more challenging. Those who undertake the public sector audit scrutiny and oversight role now need a broader range of skills than in the past, such as understanding the impact of AI, the need to be effective in horizon scanning of emerging developments and the opportunities, challenges and risks which they pose for a public sector entity and the need to understand the impact of social media on the nature and timing of scrutiny by other parties such as interest groups and citizens.

By developing and using this broader range of skills, public sector Audit Committees can make a difference and make their contribution which is even more essential in times of crisis, as new issues and questions arise.



Science helps auditors take on the data challenge

By Professor Jan Scholtes, ZyLAB and University of Maastricht, Youri van der Zee, University of Amsterdam, and Marcel Westerhoud, Ebben Partners



Source: geralt/Pixabay

Digitalisation is a key aspect the 2021-25 ECA Strategy deals with. Digitalisation links up to all three strategic goals and some key enablers, including making enhanced use of data and IT tools and technologies and is essential for strategy *implementation*. The audit profession finds itself at a crossroads in auditing by humans and the use of machine learning techniques and artificial intelligence to prevent errors and combat fraud. Public auditors can join hands with scientists to utilise advanced digital techniques to optimise the audit work and increase its impact. This will sometimes require diving in at the deep end when it comes to the techniques that can be used. Professor Jan Scholtes from the Department of Data Science and AI of the University of Maastricht and Chairman of ZyLAB, Youri van der Zee from the University of Amsterdam and Marcel Westerhoud from Ebben Partners, look at the example set by fraud investigations to show how the audit sector could benefit from AI and achieve some strategic goals.¹

The data conundrum

In today's world, auditors, compliance officers and fraud investigators face an overwhelming amount of digital information that can be reviewed. In the majority of cases, they do not know beforehand what exactly they are looking for, nor where to find it. In addition, individuals or groups may use different forms of deception to hide their behaviour and intentions, varying from using complex digital formats², rare languages³ or by using code words.⁴ Effectively, this means fraud investigators are looking for a needle in the haystack without knowing what the needle looks like.

- 1 The authors are grateful for the extensive support obtained for this research from ZyLAB Technologies BV and Ebben Partners BV, both based in the Netherlands.
- 2 Such as an email with a ZIP attachment that contains non-searchable TIFF or PDF documents or even audio recordings.
- 3 Google translate makes it very easy to translate messages into rare languages, or even into artificial languages such as Star-Trek's Klingon, thereby effectively hiding the content for tooling that only searches for words in more common languages.
- 4 Van der Zee, Y., Scholtes, J. C., Westerhoud, M., and Rossi, J., *Code Word Detection in Fraud Investigations using a Deep-Learning Approach*, arXiv e-prints, art. arXiv:2103.09606, March 2021.

Using technology is essential to address the – hopefully – high strategic ambitions auditors and fraud investigators have regarding such large digital data collections. The main problem with using such technology is to balance finding what is really suspicious from finding too many false positives, which would create too much work for auditors or victimise innocent individuals.⁵

In today's digital world, both auditors and fraud investigators have to sift through an ever-increasing mass of unstructured data when looking for valuable information or even direct evidence. To do so, one of the frequently used tools is *eDiscovery*. Many such AI-techniques are primarily aimed at isolated topics, such as sentiment and emotion analysis, assisted review (searching using machine learning), Named Entity Recognition (NER), or community detection, to organise data for better anomaly detection and to help auditors and investigators find answers to common questions more efficiently.

However, the application of such – rather promising – AI techniques is often ad hoc and not guided by an overall strategy or vision, and, where it is, it is rather focused on the 'what' in more abstract terms, and less on the 'how' in more concrete terms. To remedy this, we propose a model that gives such AI-techniques a more logical and organised role in audits and fraud investigations. Let us first have a look at how a typical auditor or investigator approaches a case. This we can do by examining three building blocks that provide a basis where we can 'plug in' an AI-technique and use the outcome as a diagnostic variable in the investigated case.

These building blocks are:

- the Fraud Triangle;⁶
- the six 'golden' investigation questions;
- the Theory of the Analysis of Competing Hypotheses.⁷

These blocks allow us to deconstruct a (partial) investigation question into a number of tasks that can each be executed by a specific search, text mining or a machine learning algorithm. To explain what these three building blocks are exactly, how they can be combined, and how AI-techniques can be used in a more structured manner using this overall framework, we should first look at the deep learning algorithms. More and more, algorithms have become a digital tool in many areas and thereby become more and more part of the auditor's realm. Also in natural language processing, they have created revolutionary breakthroughs.

Deep learning for Natural Language Processing (NLP)

The ability to model the context of text is vital to avoid finding too many false positives in audits and fraud investigations. Algorithms that enable us to properly understand such context have greatly advanced in recent years due to progress in using deep learning algorithms for highly context-sensitive Natural Language Processing (NLP) tasks, such as machine translation, human-machine dialogues, named entity recognition, sentiment detection, emotion detection or even complex linguistic tasks such as co-reference and pronoun resolution.

The above-mentioned progress comes from the development of what is known as transformer architecture. Transformer models are based on large pre-trained recurrent neural networks that already embed significant amounts of linguistic knowledge and which can be fine-tuned for specific tasks requiring a relatively small amount of additional training.

5 What is known as Bonferroni's Principle is interesting in this context, which states that if you look for certain types of data, you will certainly find such patterns, even if their occurrence is caused by chance. In large data sets, one has a higher probability of finding such suspicious patterns, which may in fact occur less frequently than chance would dictate. This will then lead to wrong conclusions.

6 Cressey, D., *Why do trusted persons commit fraud? A social-psychological study of defalcators*, Journal of Accountancy, 92:576, 1951.

7 Heuer, R. J. *Psychology of intelligence analysis*. Center for the Study of Intelligence, 1999.

A fundamental benefit of transformer architecture is the ability to perform Transfer Learning.⁸ Traditionally, deep learning models require a large amount of task-specific training data in order to achieve desirable performance (billions of data points required to fine tune hundreds-of-millions of neural interconnections). However, for most tasks, we do not have the amount of labelled training data required to train these networks. By pre-training with large sets of natural text, the model learns a significant amount of task-invariant information on how language is constructed. With all this information already contained in these models, we can focus our training process on learning the patterns that are specific to the task in hand. We will still require more data points than required in most statistical models (typically 50-100k based on our experience in earlier NLP deep learning projects), but not as much as the billions required, should we start the training of the deep learning models from scratch.

Transformers are able to model a wide scope of linguistic context, both depending on previous words, but also on (expected) future words. They are, so to speak, more context sensitive than models that can only take past context into consideration. In addition, this context is included in the embedding vectors, which allows for a richer representation and more complex linguistic tasks.

Currently, the Bidirectional Encoder Representations from Transformers (BERT), released by Google AI Language is considered to be the state-of-the-art language representation model. Another successful application of transformers can be found in OpenAI's Generative Pre-trained Transformer 3 (GPT-3) project, based on 175 billion machine learning parameters. The quality of GPT-3 is so high, that it is almost impossible to distinguish text written by GPT-3 from text written by humans.⁹

For many linguistic tasks, both GPT-3 and BERT outperform humans both in speed, scalability but also in quality. This progress allows us to use these new models to analyse large volumes of textual information in audits and investigations and identify sentences and paragraphs that provide relevant information.

Organising extracted information for auditors and investigators

How can extracted linguistic patterns be organised to be useful to auditors and investigators? This is where the fraud triangle, Golden W questions and the analysis of competing hypotheses come in, and which are relevant for both auditors and fraud investigators: for the latter in view of their detecting capabilities, for the first in view of their systemic assessment of whether a system has enough preventive elements built in to prevent fraud from happening in the first place.

Fraud Triangle

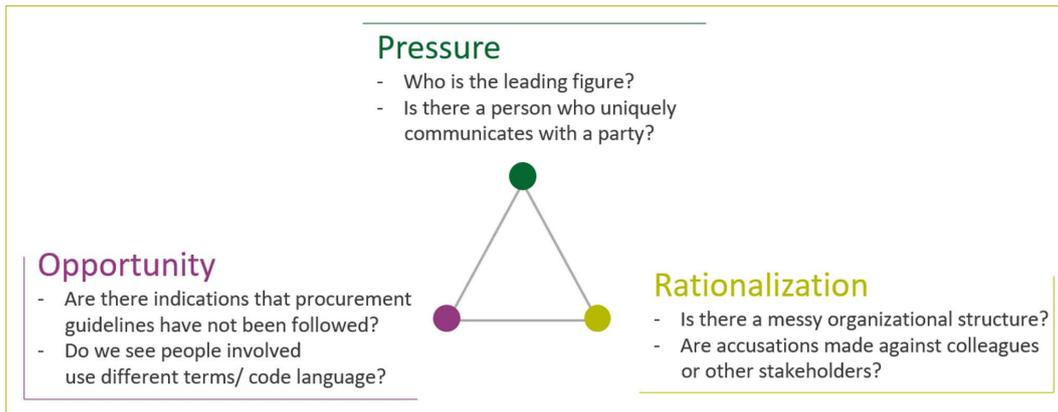
A widely used method to model organisational fraud risk is the fraud triangle (see **Figure 1**). Just as fire requires fuel, oxygen and a spark, in the case of a fraud there are also three ingredients which are essential: the perpetrator must have a motive to commit fraud, the situation must provide an opportunity, and the fraudster must find a way for himself/herself to rationalise his/her dishonesty. Motives can vary from perverse financial incentives to personal problems, such as financial need or addiction. All these can be referred to as pressure. The opportunity is often related to the control environment of the victim organisation: weak controls and tone at the top. Finally, the rationalisation relates to the perceived relation between the fraudster and his environment. This relation provides the internal justification of a fraud: 'I was mistreated', 'everybody does it', etc.¹⁰

8 Devlin, J., Chang, M.-W., Lee, K., and Toutanova, K., *Bert: Pre-training of deep bidirectional transformers for language understanding*, arXiv preprint arXiv:1810.04805, 2018.

9 Floridi, L. and Chiriatti, M., *Gpt-3: Its nature, scope, limits, and consequences*. *Minds and Machines*, 30:681{694, 2020.

10 Kassem, R., and Higson, A., *The new fraud triangle model*, *Journal of emerging trends in economics and management sciences*, 3(3):191{195, 2012.

Figure 1 - the Fraud Triangle



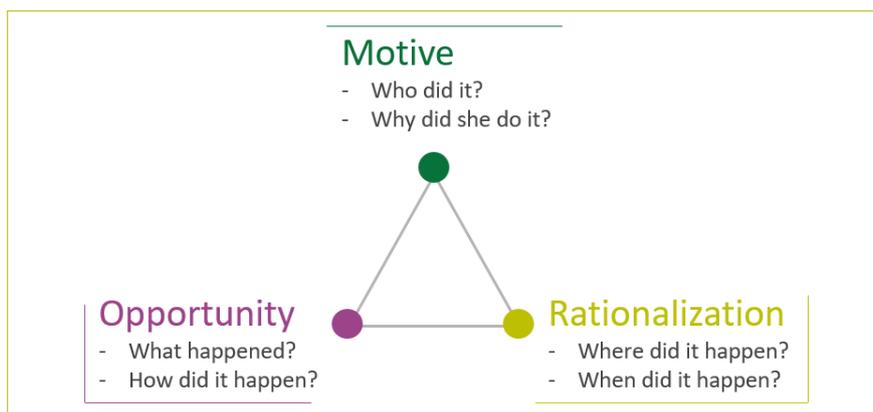
Source: J. Scholtes and others

Text mining technology, in particular machine learning, can be used to detect text sentences that indicate one of these three components of the fraud triangle. For example, by showing a machine learning algorithm such as BERT several thousand sentences related to Pressure, Opportunity or Rationalisation, it can automatically recognise similar language in other contexts.¹¹

Six golden investigation questions

Usually the fraud triangle is used as a risk tool. But we can also use the model as part of our investigation framework. To do this, we propose a relationship between the three edges of the fraud triangle and the six golden questions that lie at the basis of almost every fraud investigation: who, why, what, how, when and where. Answering these questions will almost automatically lead to the construction of a possible fraud scenario and fill the elements of an evidence matrix. If one needs to know what the motives of a fraudster are, one needs to know *who* did it and *why*. If one needs to know about possible fraud opportunities, questions about the *what* and *how* need to be answered. And finally, for the rationalisation component of the fraud triangle, situational variables are important, in particular: *where* and *when* (see **Figure 2**).

Figure 2 – Combining the Fraud Triangle with the golden investigation questions



Source: J. Scholtes and others

Answers to (variations of) these questions produce evidence items that can populate elements of the evidence matrix. The Who questions can be addressed by a well-established technique such as Named-Entity Recognition to detect Person, Company, Organisation; the Where can be answered using the same technique detecting Localities such as City, Country, Continent, etc. When can be extracted by detecting time notions such as Date, Time, Month, Year, Holiday, etc.¹²

11 Soares, L. B., FitzGerald, N., Ling, J., and Kwiatkowski, T., *Matching the blanks: Distributional similarity for relation learning*, 2019.

12 Ehrmann, M., Romanello, M., Fluckiger, A., and Clematide, S., *Extended overview of clefhippe 2020: named entity processing on historical newspapers*; Cappellato, L., Eickho, C., Ferro, N., Neveol, A. (eds.) *CLEF 2020 Working Notes*, Conference and Labs of the Evaluation Forum CEUR-WS, 2020.

Detecting answers to the Why question is harder, but empirical data has shown that the answer to this question can often be found by detecting communication with high levels of sentiments or emotions. Using a similar approach to detect the elements of the fraud triangle, sentiments and emotions can be identified deploying a deep learning approach.¹³ A corresponding empirical approach can be used to extract information on the How and What questions, using methods such as Topic Modeling,¹⁴ by deriving communities,¹⁵ or by combining the above mentioned extracted information in more complex analysis such as Who-Why, What-When, etc.¹⁶

As mentioned earlier, while deep learning can provide assistance in allocating linguistic patterns to the right context, it cannot prevent the generation of many false-positives, which causes enormous amounts of irrelevant work. A few false positives are acceptable, especially in the light of the need not to overlook irregularities, but an overload of thousands of false positives is a professional nightmare for every auditor or investigator, as nothing is more frustrating than having to chase thousands of false leads, let alone that we do not have the time or capacity for this. Intelligence services have long struggled with this problem as well. In the 1970s, the Central Intelligence Agency (CIA) developed the Analysis of Competing Hypotheses (ACH) to address this problem, which will be explained in the subsequent paragraph.

Analysis of Competing Hypotheses (ACH)

For each type of crime, what is called an evidence matrix can be constructed holding key items to be proved. For instance, in the case of a murder one needs a victim, a murder weapon, a motive, a crime scene, intent, etc. These items relate to the above-mentioned Golden Investigation Questions. Instead of using a simple numeration of such items, we can use a more advanced model of an evidence matrix as developed in the 1970s by Richard Heuer.¹⁷ This methodology was named 'Analysis of Competing Hypotheses' (ACH). It is based on the evaluation of various competing hypotheses, given a set of information items (i.e. evidence). This involves the following step-by-step approach as presented in **Table 1**.

13 Gerolemou, Z. and Scholtes, J., *Target-based sentiment analysis as a sequence-tagging task*, Benelux Artificial Intelligence Conference, Brussels, November 2019.

14 Tannenbaum, M., Fischer, A., and Scholtes, J. C., *Dynamic topic detection and tracking using nonnegative matrix factorization*, Benelux Artificial Intelligence Conference (BNAIC), Hasselt, Belgium, November 5-6, 2015.

15 Helling, T., Takes, F., and Scholtes, J.C., *A community-aware approach for identifying node anomalies in complex networks*, The 7th International Conference on Complex Networks and Their Applications December 11-13, 2018, Cambridge, United Kingdom, 2018.

16 An overview and examples of such techniques can be found in Smeets, J., Scholtes, J., Rasterfo, C., and Schravemaker, M. *Smtip, Stedelijk museum text mining project*, Digital Humanities Benelux (DHBenelux), Luxemburg, June, 2016; Scholtes, J. C., *Text-mining and ediscovery for big-data audits*, ECA Journal. No 1, pp. 133 -140, 2020.

17 Heuer, R. J., *Psychology of intelligence analysis*, Center for the Study of Intelligence, 1999.

Table 1 – Step-by step outline of Analysis of Competing Hypotheses (ACH)

STEP	ACTION
Identify the possible hypotheses to be considered	Use a group of analysts with different perspectives to brainstorm the possibilities
Listing pros and contras	Make a list of significant evidence and arguments for and against each hypothesis
Prepare a matrix with hypotheses across the top and evidence down the side	Analyse the 'diagnosticity' of the evidence and arguments (that is, identify which items are most helpful in judging the relative likelihood of the hypotheses)
Refine the matrix	Reconsider the hypotheses and delete evidence and arguments that have no diagnostic value
Draw tentative conclusions about the relative likelihood of each hypothesis	Proceed by trying to disprove the hypotheses rather than prove them
Analyse how sensitive your conclusion is to a few critical items of evidence	Consider the consequences for your analysis if that evidence were wrong, misleading, or subject to a different interpretation
Report conclusions	Discuss the relative likelihood of all the hypotheses, not just the most likely one
Hooks for future observations	Identify milestones for future observation that may indicate events are taking a different course than expected

Source: J. Scholtes and others

The 'weighted inconsistency score' (see **Table 2**) provides a measure for the plausibility of a specific hypothesis, given a set of evidence items in terms of credibility and relevance. Lower values of the scores correspond with a lower plausibility of the hypothesis. The numerical values are determined based on a simple lookup table. These initial values do not represent probabilities, but they can be normalised towards a [0-1] range, giving a normalised confidence score. Combining confidence scores can be done by multiplication. There are obvious issues with this approach, as the use of multiplication in the calculations presumes complete independence of the underlying hypothesis, which is off course not always the case. In addition, the values are manually assigned, which leads to bias risks. But for now, this is what is used.¹⁸

Table 2 – A weighted inconsistency score

	Type	Credibility	Relevance	H: 1	H: 2	H: 3
				Hypothesis1	Hypothesis2	Hypothesis3
Weighted Inconsistency Score				-1,707	-2,828	-1,414
Evidence item1		LOW	HIGH	I	C	CC
Evidence item2		HIGH	MEDIUM	NA	I	I
Evidence item3		MEDIUM	LOW	I	II	CC

Source: J. Scholtes and others

I Inconsistent, II Strongly inconsistent, C Consistent, CC Strongly consistent, NA Not applicable.

¹⁸ See this [document](#) for a technical discussion on the use of 'weighted inconsistency score'

Now we have a conceptual model we can systematically inject the results of a various set of AI-methods into, for example in a case of the investigation of a possible purchasing scheme. Typical for this scheme is the incidence of collusion between perpetrators.

Several of the evidence components listed above, can now be filled automatically with possible candidates using the text mining techniques we referred to earlier. Named Entity Extraction in combination with 'inconsistency scores' with basic linguistic contextual analysis can provide candidates for the Who, Where, and When questions. Sentiment and emotion mining can identify the textual sections containing and providing valuable insights into Why something is done and Who is driving the actions. Topic modelling can be used for the What question, and combinations of the above and the extraction of more complex (dedicated) patterns can answer the How questions.

Examples of typical investigation questions, relevant AI techniques that can identify potential answers to such questions and more detailed facts are listed in **Table 3**.

Table 3 – Examples of W-Questions that can be used to validate competing hypotheses

QUESTION	AI METHOD	RESULT
Who is likely to be involved in the scheme?	Detect Who's and Community Detection	Close relation between employee A, employee B and supplier C
Where did it happen?	Detect Where's and Geomapping	Location of Meetings and Transactions C
When Did it Happen?	Detect When's and Time Lines	Time of Meetings and Transactions
Why and How Did it Happen?	Detect Sentiments and Emotions	Motivations, Responsible Individuals, Modus Operandi
What happened?	Topic Modelling	Overview of all activity

Source: J. Scholtes and others

This information can then be used to construct elements of the scenario when added to the ACH-matrix: instead of using the actual extracted sentences, it is better to use a straightforward quantitative analysis, such as the total number of occurrences of certain relations, the above or below average percentage, or the nature of the polarity of the emotions and sentiments.

The extraction of the above entering this result as an evidence item in an ACH-matrix would look like what is shown in **Table 4**.

Table 4 –ACH-matrix of competing hypotheses

	Credibility	Relevance	H1: A is acting alone	H2: A and B are colluding
145 emails scheduling meetings between A and B	Medium	Medium	II	CC
87 agenda items indicating meetings	High	High	II	CC
237 Phone Records indicating direct conversations	High	Medium	II	CC
90 more email between A and B than average	Medium	Low	I	C
Friendly emotions and sentiments detected in all emails between A and B	Medium	High	I	C
B consistently bcc-ed in communication between A and others	High	High	II	CC

Source: J. Scholtes and others

I = Inconsistent, II = Strongly inconsistent, C = Consistent, CC == Strongly consistent, NA = Not applicable.

This is an example of how the ACH-matrix can be used to create a complete mapping of the golden W questions initially to hypotheses and ultimately to evidence items that can be generated from AI-techniques. In the example above this mapping relates to the Who-question - in this case: 'is A acting alone, or colluding with B?' The first step is to establish a meaningful relationship between a relevant item of evidence (in relation to the hypotheses) and the output of the AI-process. 145 emails related to scheduling meetings and 87 meetings found in the mutual agendas (extractions of email communication is medium credible or relevant, as meetings can also be arranged by assistants), lead to a strong inconsistency with the hypothesis that A is acting alone and to a strong consistency that A and B are colluding. Many direct phone records, friendly emotions in email exchange and the consistent use of blind carbon copies (bcc) to B when A emails C, are all indications that A and B are colluding.

AI deep learning techniques create new challenges, not only technical ones

We have described how new deep learning techniques are able to capture richer contextual representations which can be used in audits and fraud investigations. With our proposed framework, we aim to bring structure to the search space auditors and fraud investigators have to explore for anomalies and irregularities. With the employment of machine learning techniques, this search space is reduced and made insightful, and hopefully helpful for public audit institutions, such as the ECA, to address the 'how' of reaching its strategic objectives, in particular in relation to fraud prevention and detection.

At the same time, our proposed framework offers cohesion to the collection, classification and weighting of evidence that is collected via AI-methods. We think it is possible to automatically organise investigative data, so it is easier for auditors and investigators to find answers to typical investigative questions, without being overwhelmed with non-relevant information or false signals. In the near future, further research is planned to identify more relevant evidence items which have a discriminatory relation to a fraud scenario and which can be obtained by an appropriate AI method. In our proposed model, these evidence items all are formatted as an answer to one or more variants of the six golden investigation questions. With an adequate amount of these 'triples' (scenario-evidence-AI-method) we expect that many investigations can benefit significantly in terms of efficiency and quality. Another topic for further development is the automation of applying weightings in terms of relevance and credibility to the output of the AI-method and subsequently inserting consistency values into the ACH-matrix.

Many of the algorithms used are language dependent. In a European context, that means that one of them should support 30+ languages in order to be useful for European auditors or investigators, and even up to 40 if Chinese, Russian, Turkish, Arabic, Japanese, Korean and Hindi are included. The future will therefore call for automatic techniques to transfer algorithms and classifiers automatically from one language to others. This is also a major topic of interest to the research community.

Now that we live in a post COVID-19 world, the need to collaborate on large case files in a 'working from home' situation has complicated the audit and investigation process significantly. How to share such large case files in a secure way has become a daily challenge. Especially in the light of a strict General Data Protection Regulation, there are issues relating to privacy, data protection and cyber security. Without a secure digital platform and a variety of tooling, sharing is not possible. Once such a digital platform is in place, why not benefit to the maximum from all possibilities? This is a question auditors and investigators should also be asking themselves.



The ECB's strategy review – building a bridge to a more resilient future?

By Gaston Moonen



Central banks are not known for revolutionary changes and, when it comes to long-term planning, the ECB's key concern has been price stability. This is also the focus of its current strategy. This strategy dates back to 2003. So when the ECB announces a review of its long-term strategy this raises expectations. What are the strategic challenges that the ECB wants to address and how has it organised its review process? Below some insights into drivers, potential objectives and strategy process, that is: as far as the ECB is willing to open its vaults on that at this stage.

Unprecedented times, also for central bankers

No one will dispute that the activities and role of the European Central Bank have evolved considerably since the global and European financial crisis of more than ten years ago. The first change that comes to mind is the role of financial supervision of banks in the euro area. At the same time, the ECB's role has also become more difficult in view of the more heterogeneous situation of public finances in the Union, and in particular the euro area. The ECB's low interest rates and quantitative easing play a key role in maintaining financial stability.

Things also changed considerably at institutional level with the Lisbon Treaty, with the ECB going from the status of a *sui generis* Community body to that of a Union institution, and the introduction of several other innovations in the area of economic governance, refining the European Monetary Union in several respects. These changes have enabled the ECB to use economic governance instruments, as we have seen since the financial crisis, and at a time of negative interest rates, which makes the monetary policy instrument of increasing or lowering interest rates more *one* of the central bank's tools instead of *the* central bank tool.

One of these nonstandard policy measures has been quantitative easing. The ECB started buying assets from commercial banks in March 2015 – although some analysts would say from May 2009 - as part of its non-standard monetary policy measures. These

asset purchases, known as quantitative easing, are intended to inject money into the economy to expand economic activity and are seen as an unconventional form of monetary policy, also used by central banks if their key interest rates hover around 0%. Buying financial assets from financial institutions, on a large scale and normally over a pre-committed period of time, raises the prices of those assets while at the same time increasing the money supply.

The ECB already used the quantitative easing instrument at an early stage in the COVID-19 pandemic. On 18 March 2020, in view of the expected economic shocks caused by the COVID-19 crisis, the ECB announced a €750 billion Pandemic Emergency Purchase Programme (PEPP). The main aim was to lower borrowing costs and increase lending in the euro area. This PEPP is of the same magnitude as the Next Generation EU package adopted by the European Council.

Strategic review in 2020/2021

In September 2020, Christine Lagarde, President of the ECB since November 2019, announced a review of the ECB's strategy, to be completed in 2021. Reviews of the overall strategy of the ECB are rare: the ECB's last review dates back to 2003, following its initial monetary policy strategy set out in 1998, the year that the ECB started its work.

Reviewing strategies is not uncommon for central banks: the U.S. Federal Reserve System – the FED - started a review in 2019, which is now complete. In the UK, the Bank of England announced a review process in January 2020, and the Bank of Canada conducts a review of its inflation target every five years.

The strategy review the ECB is currently undertaking is most interesting, not only in view of the ECA's external auditor responsibilities towards the ECB, both as a central bank and supervising authority, but also in view of the ECB's role and influence in the euro area's economy. Below some key information and views expressed by ECB representatives on their ongoing strategy review.

Communicating on the why and the when of the review

On its [website](#), the ECB elaborates various aspects related to its strategy review. Some key aspects covered are the following.

Issues covered by the strategy review

A strategy that is fit for purpose to help the ECB fulfil its mandate of keeping prices stable: the review, undertaken together with the 19 national central banks of the euro area, is not about what the ECB does, but how it does this within the mandate laid down in the EU treaties. However, this exercise will be done with 'an open mind.' Aspects looked at will include:

- the meaning of price stability, touching on the rates of inflation to aim for;
- the way the ECB analyses the economy;
- the relevance of issues such as employment, social inclusion and climate change to the ECB in pursuing its mandate;
- the monetary policy instruments available; and
- communication with third parties, in particular, based on the euro being a public good, with citizens to enhance their understanding of the ECB's mission and decisions.

Reasons for the strategy review now

Here the ECB refers to fundamental changes in the economy over the last twenty years, such as declining growth and lower interest rates since the financial crisis. The three reasons the ECB indicates that prompted the review now are:

- historically low interest rates. Slowing productivity growth and a declining active population are driving down interest rates;
- limits to lowering interest rates. According to the ECB, with the current interest rates close to zero or even negative, it is harder to lower rates during periods of slow growth and low inflation. Reference is also made to new instruments, such as the asset purchase programmes, to overcome this;
- climate change, ongoing globalisation, rapid digitalisation and changing financial structures. According to the ECB these trends have unexpected effects on the world, on the way the economy functions, and so also on the ECB's monetary policy.

This last point may open up the possibility that the review will address issues that traditionally have not been the focus of a central bank. Or, as Christine Lagarde put it when [announcing](#) the strategy review in September 2020: 'This environment poses fundamental questions for central banks. We need to thoroughly analyse the forces that are driving inflation dynamics today, and consider whether and how we should adjust our policy strategy in response.' She also referred to an issue which she already had high on her agenda when she was chairing the IMF: 'But if monetary and fiscal policies are interacting more closely, it also raises important questions – questions that will become even more acute in the aftermath of the pandemic. These include how to set policy in a world of possibly permanently higher levels of public debt, and the appropriate design of Europe's fiscal framework.' This is an issue that has only become even more interesting since; through quantitative easing, central banks have been adding more government debt to their balance sheets.

Other members of the ECB Executive Board have highlighted a need to better link the ECB's actions to major concerns, such as climate change. Executive Board Member Fabio Panetta said in a [speech](#) given in January 2021: 'The ECB can contribute to environmental policies in the implementation of monetary policy – what we refer to as the operational framework. We have already taken steps in this direction, for example by including sustainable finance instruments – the sustainability-linked bonds – among the collateral that can be used in refinancing operations. In addition, to ensure that it remains financially sound, the ECB has to protect its balance sheet from the financial risks caused by climate change that are not correctly priced by the markets. By performing its own analysis of these risks on the basis of rigorous methodologies, the ECB can contribute to the accurate valuation of these climate-related risks and promote awareness among investors, thereby helping to combat climate change. These issues are currently being considered as part of our monetary policy strategy review.'

Open review with certain restraints

The ECB has underlined that its strategy review will not affect the ECB's monetary policy. The ECB will continue to reassess its monetary policy every six weeks. Its current strategy review, however, is aimed at making the ECB's monetary policy strategy fit for the years to come. Secondly, the review will not encompass the ECB's role in banking supervision. As the ECB put it: 'The way we supervise banks is independent from how we conduct monetary policy.'

Involve citizens in the strategic review

How can citizens have a say? One of the objectives of the strategic review is to collect input from a wide range of stakeholders, to better understand people's expectations and concerns. And subsequently link this to the ECB's mandate regarding price stability. This explicitly includes reaching out to citizens, or, as Christine Lagarde [said](#): 'We must explain much better to the general public what we are doing and why, and we must talk to people that we do not normally reach. This imperative has to cascade through all the elements of our review: our inflation aim, our inflation measure, our tools and their effectiveness, and how we take into account new challenges that people care about, like climate change or inequality.'

With this in mind the ECB has hosted a series of conferences and workshops across the euro area, some of them together with national central banks, to receive input from the general public and civil society organisations. European citizens were invited to share their views on price stability, economic issues, global challenges and public outreach. This included a dedicated event for European-level civil society organisations, held in October 2020 (*ECB Listens* event); a web survey for the general public, running from February until October 2020 (*ECB Listens* Portal), to which almost 4 000 responses were submitted; national-level events conducted by euro area national central banks (NCBs) between October and December 2020 (NCB listening events). On its website the ECB has presented a [midterm review summary report](#) and a [summary report](#) on actions undertaken via multiple channels and the feedback received.

Timeline

Due to the COVID-19-related restrictions, the review has been extended until the second half of 2021.

A monetary policy objective 2.0?

According to Fabio Panetta, in a [presentation](#) given in January 2021, a number of external developments can be seen as both opportunities and risks for the ECB, even in relation to its supervisory role.

In this respect, he said: 'But it is not just monetary policy that is affected. Climate change has an impact on the overall stability of the financial system. The most vulnerable intermediaries are those that operate with long time horizons and are exposed to the consequences of extreme events, such as insurance companies. We are currently defining models that could be used to measure the systemic risks caused by climate change, including through specific stress analyses. ECB Banking Supervision – the ECB's supervisory arm – has also recently published its expectations on how banks should manage climate and environmental risks in their balance sheets. Looking ahead, this could then influence banks' capital and public disclosure, increasing awareness among intermediaries and investors of these risks.'

More recently, in [April 2021](#), Fabio Panetta highlighted that the ECB is looking beyond the usual issues related to price stability: 'As for climate change, our primary objective is price stability, but we also want to incorporate this important factor. President Lagarde is committed to the ECB doing its part to fight climate change. We will provide an answer later this year.'

Also regarding its relation with its main stakeholder, in the end the European citizens, the ECB's management sees a shift and a need to explain more its roles and the actions taken. As Philip R. Lane, ECB Executive Board Member, said in an [interview](#) in January 2021: 'We are living in extraordinary times. Compared to 15 years ago, the role of central banks is very different now to perhaps its more traditional role. For example, we are very active in quantitative easing and targeted lending to banks. All of this needs explaining. And the way people absorb information is also very different now, with the use of social media and a greater focus on visuals, for example.'

He relates such communication to trust, saying: 'The most important factor is trust in the ECB: as a driver, I don't need to know exactly how the engine operates. I need to trust the car dealer and the mechanic to do a good job. The same goes for monetary policy. Not everybody needs to be a financial expert. (...) The surveys show that people have more trust in the euro than they do in the ECB. This is a clear signal that we need to better explain our task and policies. Perhaps then the level of trust in us would go up.' And he also reiterates there is a role to play towards a green transition: 'All sectors of the economy have to make sure that the way they operate is green and consistent with carbon transition, and that applies to the central bank as well. But the role of the central bank in the financial system means we can be a leader and a catalyst.'

Finally, and perhaps of particular interest from an external auditor's perspective, accountability has also been mentioned as a driver for review. When [speaking](#) in September 2020 about the strategic review the ECB has undertaken, ECB President Lagarde indicated that the consensus that has governed monetary policy worldwide has been challenged on a number of fronts and that the current environment poses fundamental questions for central banks. She underlines that the ECB is keen to hear from a wide variety of stakeholders about how they perceive the ECB's goals and actions. As she then put it: 'Monetary policy can only be credible if we ensure that our goals are truly understood and shared by the people we serve. As an independent central bank, we are and will remain accountable to them.'

The above references by Executive Board members indicate there is a fair chance that in the future the ECB will interpret the monetary challenges more widely than only from the viewpoint of price stability. Key concerns such as climate change, fiscal viability and revamping conventional monetary policy conditions to have more grip on financial flows seem to be on the table. But will such concerns receive enough support within the ECB to become visible in its new strategy? And how much of these concerns does the ECB want to be visible in its new strategy? Clearly expectations are there in these times of growing challenges. The best decisions are made at the right moment. So it will not only be relevant to see *how* the ECB wants to achieve the *what*, but also *when* it wants to start with it.



Clarifying misconceptions about the role of banks in creating money is of strategic importance for accountability and audit

By Patrick Alix and Lise Marie Bruun, public sector auditors



Source: RoboAdvisor/Pixabay

Against the backdrop of climate change and a global pandemic, public audit institutions, as the independent guardians of the financial interests of citizens, have an important role to play regarding the public sector's financial challenges and financial stability in general. Lise Marie Bruun and Patrick Alix work as managers and senior auditors for an international supreme audit institution. Their contribution addresses a topic outside the realm of their daily work, as they share their personal view on how to strengthen public sector accountability and the audit of European banking supervision.¹ According to the two authors, there is a need for more transparency and a strengthened role for parliaments, for the benefit of public policy-makers and the public at large.

Strategic goal to address accountability gaps, including in relation to banking supervision activities

In today's context of greater uncertainty and risks, supreme audit institutions (SAIs) need to become more innovative in how they can address society's current and future concerns. From a strategic point of view, a public audit institution needs to look at risks from a wider policy perspective, where possible by acquiring new knowledge and expertise, and focusing on the links between complex financial information, public policy objectives and societal concerns. Building on [ISSAI 12](#), the international audit standard of the International organisation of Supreme Audit Institutions (INTOSAI)², SAIs should incorporate an agile and forward-looking mindset in their strategic plans, in order to remain relevant to their citizens, parliament and other stakeholders. In line with ISSAI 12, the European Court of Auditors included a goal in its [2021-2025 Strategy](#) on improving accountability, transparency and audit arrangements across all types of European Union action, together with identifying audit and accountability gaps.

1 The views expressed in this article are solely those of the authors and do not reflect in any way those of their employer.

2 See particularly Principle 5 of ISSAI 12.

One accountability and audit gap of strategic concern for SAls relates to banking supervision, which aims to contribute to the safety and soundness of the banking sector and the stability of the financial system. In 2018, the Contact Committee of the Presidents of SAls of the EU [reported](#) on deficiencies in the accountability and audit arrangements of the supervisory mechanism for banks in the euro area. This is because, with the establishment of the Single Supervisory Mechanism (SSM)³, prudential supervision responsibilities over the most 'significant' banks were transferred from national authorities to the European Central Bank (ECB). In 2019, 117 significant banks represented over 80% of the total asset value of banks in the euro area.⁴

The ECB is audited by the ECA, but under a limited mandate restricted to an examination of the operational efficiency of the management of the ECB⁵, which also applies to its banking supervisory tasks.⁶ Within its mandate to audit the operational efficiency of the management of the ECB, the ECA has issued a number of reports covering the ECB's banking supervision tasks.⁷ The ECB's accounts are audited by private sector external auditors.

The ECB enjoys independence in its exercise of powers as reflected in the Treaty on the Functioning of the EU (TFEU) and the Statute of the European System of Central Banks (ESCB) and the ECB. The ESCB is made up of the ECB and the national central banks of the euro area. According to Article 127 of the TFEU, 'The primary objective of the European System of Central Banks (ESCB) shall be to maintain price stability.' This article also states that 'Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union.' These EU objectives are broad and [include](#) for example *sustainable development, balanced growth and improvement of the quality of the environment*. The objectives of the ECB, including objectives related to banking supervision, reflect well its general aim to contribute to the achievement of wider public policy goals, without prejudice to the objective of price stability.

Clarifying misconceptions about the role of banks in creating money

For those of us who do not work in the banking sector, its inner workings, especially regarding the public role of banks, are largely unknown territory. During the last decades, the increased use of bank deposit money, the disappearance of public facilities for payments and savings, and concentration in the banking sector, have resulted in an imbalance between public and private interests. This imbalance has only very recently been the focus of public policy debate.⁸

The acquisition of new knowledge and relevant expertise is a critical part of strategic planning. One key challenge regarding the audit of banking supervision is to gain sufficient knowledge of the banking system, especially given the complexity of banking sector terminology and regulations.

During the last few years, the Bank of England⁹ (2014), the Deutsche Bundesbank¹⁰ (2017) and the Banque de France¹¹ (2019), published articles that provide new knowledge, at

3 See [Council Regulation \(EU\) No 1024/2013](#) of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

4 [ECB Annual Report on supervisory activities 2019](#).

5 Article 27 of the [Protocol on the statute of the European system of Central Banks and the European Central Bank](#).

6 Council Regulation (EU) No 1024/2013, *idem*, Article 20.

7 For example: [special report 05/2014: European Banking Supervision taking shape – EBA and its changing context](#), and [special report 29/2016: Single Supervisory Mechanism – good start but further improvements needed](#).

8 The Netherlands Scientific Council for Government Policy, [Money and Debt. The Public Role of Banks](#), 2019.

9 Bank of England, by Michael McLeay, Amar Radia and Ryland Thomas, [Money creation in the modern economy](#), Quarterly Bulletin 2014 Q1.

10 Deutsche Bundesbank, [The role of banks, non-banks and the central bank in the money creation process](#), Monthly Report, April 2017.

11 Banque de France, [Qui crée la monnaie](#), 2019.

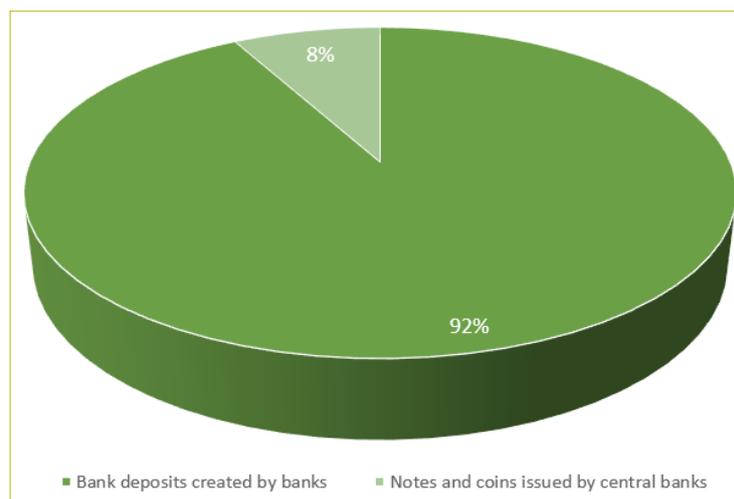
least for non-experts, on how the banking system really works. This new central bank narrative dismisses the 'money multiplier' fractional reserve theory, which incorrectly assumes that banks lend out reserves, i.e., money that was first deposited in their bank as reserves. According to this inaccurate theory, central banks are able to determine the overall amount of money in the economy by controlling the quantity of base money reserves, and by setting a reserve ratio for bank deposits. This theory is still frequently applied by policy makers and taught in economics courses and textbooks.¹² However, this is not the way banking works nowadays.

The central banks of England, Germany and France, sought to shed light on those misconceptions, clarifying that banks do not lend out reserves. Banks mainly use central bank reserves to make interbank payments, not for payments outside of the banking system. In fact, banks do not need reserves to be first deposited in their bank before they can grant a loan or purchase an asset. This is because banks are able to create new money in the form of bank deposits, by an accounting double-entry when they grant loans - this process is also called *credit creation*.¹³ Banks also create new money when they purchase assets. Conversely, by applying the reverse accounting double-entry, banks also destroy money every time they are repaid loan capital instalments or when they sell assets.

Banks do not lend out reserves. When banks grant a loan, they create new money by an accounting double-entry.

In order to estimate monetary aggregates and to have a comprehensive picture of the monetary developments in the euro area, the ECB prepares a consolidated balance sheet of Monetary Financial Institutions (including money-issuing banks).¹⁴ This consolidated balance sheet shows that approximately 92% of the money supply in the euro area is made up of bank deposits created and reported on the balance sheets of money-issuing banks (see **Figure 1**).

Figure 1 – Money supply in the euro area



Source: Lise Marie Bruun and Patrick Alix, based on information drawn from the MFI consolidated balance sheet

Regulatory basis for creating money...without initial reserves

A limited amount of academic literature can be found to explain the regulatory basis allowing banks to create and destroy money without first holding reserves. According to some experts¹⁵, this basis is provided by the 'banking exemption' from client money rules, which allows banks to record money as a liability and not as a segregated asset placed in a separate bank account. In EU regulations, this exemption to client money

12 By Joe Earle, Cahal Moran and Zach Ward-Perkins, *The econocracy. The perils of leaving economics to the experts*, Manchester University Press, 2016.

13 Standard & Poor's Ratings Services, by Paul Sheard, *Economic Research: Repeat After Me: Banks Cannot And Do Not "Lend Out" Reserves*, August 2013.

14 Based on information drawn from the [MFI consolidated balance sheet](#).

15 See for example Richard A. Werner, *How do banks create money, and why can other firms not do the same? An explanation for the coexistence of lending and deposit-taking*, International Review of Financial Analysis 36, 2014, 71–77.

rules is found in the Markets in Financial Instruments Directive (MiFID ii).¹⁶ Further analysis is needed to confirm the precise regulatory basis of the monetary creation process by banks provided by this banking exemption.

From a regulatory standpoint, EU banking regulations do not refer to the way banks are able to create money without first holding reserves. To illustrate this point, in the EU a bank is called a credit institution¹⁷, which is officially defined as ‘an undertaking the business of which is to take deposits or other repayable funds from the public and to grant credits for its own account.’¹⁸ This definition appears to indicate that a credit institution first takes deposits from the public and then uses these deposits to grant loans, as described in the ‘money multiplier’ theory. The way a credit institution is defined in EU regulations may therefore be an indication that the current regulatory framework is based on the outdated ‘money multiplier’ fractional reserve theory. We think that a more accurate definition of a bank, reflecting its public role, could for instance be: a financial institution exempted from client money rules when transacting with non-banks, and thereby authorised to create and destroy money.

Because banks are able to create money by an accounting double-entry without first holding reserves, central banks cannot determine the overall quantity of credit and money in the economy via a ‘money multiplier’ or reserve ratio. Instead, central banks use monetary policy to ensure that the amount of money creation in the real economy is consistent with low and stable inflation, by setting the interest rate on base money, i.e., on central bank reserves, which in turn may influence bank interest rates. In addition, central banks may provide monetary stimulus to the real estate and financial markets sectors through non-conventional monetary policy programmes of asset purchases - Quantitative Easing. Central banks and national bank supervision authorities may also seek to influence decisions made by banks using micro- or macro-prudential instruments, but this remains mostly of a persuasive nature with no guarantee of providing sufficient incentives to banks to take action.¹⁹

Creating money has societal consequences

The fact that central banks cannot determine the overall quantity of credit and money in the economy is of strategic relevance for policy makers and consequently also for SAs. Money creation has an impact on wider public policy objectives. This is because decisions made by banks on how to allocate credit in the economy may directly impact financial stability. For example, decisions made by banks to increase net credit creation in the real estate or financial markets sectors may lead to the build-up of asset bubbles and financial instability in those sectors.

Moreover, other public policy areas, such as climate change and sustainable finance, are directly or indirectly impacted by the way money is created by banks. For example, decisions made by banks to continue allocating credit to the high-carbon sector and thereby most often to the most highly polluting activities of the economy, may jeopardise the success of sustainable finance public policy objectives.

How banks allocate credit in the economy, both in terms of geographical location and by sector may have considerable effects on the general state of the economy. In addition, short-term financial market forces are not necessarily aligned with long-term public policy objectives. At a time of climate change, high pollution levels and the destruction of biodiversity, it is important that policy makers have better insight into and oversight of the scale and characteristics of money creation by banks, financing the different sectors of the economy. The question is whether sufficient information to gain this insight and

¹⁶ Article 16(9) of [Directive 2014/65/EU](#) of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (MiFID) and Article 4(1) of the [Commission Delegated Directive \(EU\) 2017/593](#) of 7 April 2016 supplementing Directive 2014/65/EU (MiFID Delegated Directive).

¹⁷ In this article, we refer to credit institutions as banks for the sake of clarity, except when we are referring to a specific regulation or definition.

¹⁸ [Regulation \(EU\) No 575/2013](#) of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

¹⁹ European Systemic Risk Board, [Flagship Report on Macro-prudential Policy in the Banking Sector](#), 2014.

oversight is available and if so, whether it is possible to grasp its meaning and impact. The question is also, whether policy makers currently have sufficient means – regulatory, fiscal or other – to steer decisions made by banks regarding money creation into line with long-term objectives and limits set through democratic processes.

Strengthening public sector accountability and audit of banking supervision

Having evidence-based information to enable proper decision-making is a strategic concern for a government at any level. This makes accountability of banking supervision activities in the EU a strategic concern.

The accountability arrangements of the ECB are described in the EU Treaties and in the regulations concerning banking supervision.²⁰ The ECB submits two annual reports to a number of stakeholders including the European Parliament and the Council. One annual report covers the activities of the ESCB and monetary policy²¹, part of which relates to banking supervision activities. The other annual report focuses entirely on the ECB's banking supervision activities.²² In normal times, these two annual reports are presented to the European Parliament at a public hearing, subject to a parliamentary debate, and may form the basis of a parliamentary resolution. The European Parliament's oversight over the ECB's banking supervision tasks therefore relies significantly on the information presented in these two reports.

The annual report covering the activities of the ESCB includes the consolidated balance sheet of the ESCB, which shows the net creation of central bank reserves (base money) in a given period. This annual report does not include the consolidated balance sheet of the money-issuing banks (Monetary Financial Institutions) which is produced by the ECB for monetary policy purposes. However, given the dismissal of the 'money multiplier' theory, the consolidated balance sheet of the money-issuing banks becomes an important basis for accountability of banking supervision, as it would also show the net monetary creation by banks in a given period.

The consolidated balance sheet of the money-issuing banks produced by the ECB and available on their [website](#) is, to our knowledge, not presently subject to an annual audit at consolidated level or used for external accountability of banking supervision activities. Only the individual balance sheets of banks are audited by statutory financial auditors to ensure that they are true and fair. Such audited information at consolidated level could be useful for overseeing on an annual basis the achievement of banking supervision objectives, but also the achievement of the general policy objectives of the EU, such as sustainable development, balanced growth and improving the quality of the environment. As a minimum, information about money creation in the eurozone should become more readily available and reported upon to allow for discussion by policy makers at both national and EU level.

In summary, given the magnitude of current and future concerns in society, and the public role of banks in creating money, strengthening public sector accountability and audit of European banking supervision is a strategic concern for the EU. The new central bank narrative on how money is primarily created by banks without first holding reserves brings to light the importance of the consolidated balance sheet of the banking sector, as a macro-prudential banking supervision tool. It is essential that as part of this public sector accountability, the new knowledge provided by central banks on the dismissal of the 'money multiplier' fractional reserve theory, and its implications for the stability of the financial system and wider public policy goals, becomes more transparent and is reported upon to parliaments, public policy-makers and the public at large.

²⁰ Monetary Dialogue Papers, [How Can the European Parliament Better Oversee the European Central Bank?](#), September 2020.

²¹ Article 284 of the [consolidated versions](#) of the Treaty on the European Union and the Treaty on the Functioning of the European Union.

²² Article 20 of Council Regulation (EU) No 1024/2013, *idem*.

Corporate strategy – a balancing act between the ‘what’ and the ‘how’

By Olger Draijer, CoachConsultant



Source: Pixabay

In our efforts to identify a good strategy, we tend to look at the strategic objectives. But often the proof of the pudding is in the eating: implementing a strategy. And there, many more aspects come into play than mere numbers of staff or other resources. This is what Olger Draijer observes in his work as a coach of leaders of various organisations, mostly CEOs and top managers in the private sector, with companies from all over Europe as his clients. With over a decade of coaching experience Olger Draijer provides insights into the issues which often surface when discussing strategy with these leaders.

From managing to leading

The word ‘leading’ is an interesting word. Intrinsicly, it already gives you a visual perspective of moving towards something. And when we take its literal meaning – to show the way, to direct, to head – this only confirms this initial perception and forward-looking perspective. Leaders move towards something. The word managing does not have this connotation. For many of us managing relates to controlling something, to supervising people, to taking care of something.

What makes a manager a leader then? When a person starts to manage, let’s say at team leader level, they often have to manage a team of five to ten people. When you ask people ‘How do you do that?’ their first, almost default answer is ‘I really take care of them individually.’ This manager coaches his or her staff, drinks coffee with them, focuses on building a good relationship, with the underlying thought that this relationship will motivate them to do the things he or she asks them to do. Then this team leader is promoted to middle manager, with a team of 20 to 30 people. He or she then finds out that the coaching approach, drinking coffee with them individually, does not work out as well as before. Nevertheless, the good ones survive and then they rise to senior level where they have to manage something like 200 people – which is really different; then

you have to learn how to actually lead people. Often, you have to teach people things that should become a sort of natural behaviour they have never displayed before. That is the moment when companies call a professional coach to guide senior management: towards leading an organisation. At this stage, companies see such help as an investment for the future.

Leading means a change of focus. While before it was on having a personal relationship with your team members to understand their behaviour, the focus changes to establishing teams. Leading means that you are able to make strong teams; that you can decide and convey what the culture of the organisation will be that these teams will have to work in. As a leader, you literally have to set the example regarding which values make up this culture. Because values are defined at the highest level in an organisation. That is the start.

Strategic thinking focuses on the ‘how’

As a leader, you set the tone, for many almost instinctively focusing firstly on where you want to go, the ‘what.’ But perhaps more important for realising the ‘what’ will be the how to get there. The ‘how’ defines the leadership in an organisation more than the ‘what.’ It is how we talk, how we meet, how we criticise people, give feedback, create a team and how we make people responsible for what they are doing.

Leaders are often thought of as people with a vision and the capacity to stick to it. As important as having a vision may be, sharing it is even more important. A vision should be the outcome of a team effort, also because it is closely related to the values by which you want to reach your strategic goals. Consequently, it might even relate more to the ‘how’ than to the ‘what.’

With regard to the vision an organisation may want to adopt – which is also the case for a strategy – a CEO or institutional leader has to make sure that he or she does not become the general of an army, going forward and forward, to find out when looking back that his troops – the staff (but it can also be shareholders or stakeholders) – have not followed, for whatever reason. An example of this is Unilever, a company whose CEO, Paul Polman, had a vision of his company becoming an example of sustainable entrepreneurship. But the company, and in particular the shareholders, were not ready yet for Polman’s avant garde vision of striking a balance between making money and preserving the planet.

As a leader, you have to ensure that your troops, the organisation as a whole, are actually following your lead and are not going into all kind of different directions. And that they give you the input that defines the direction you want to go. Staying connected is also a defining element of the ‘how’ of a strategy.

Once a common goal is set, then it is much more about the execution than about the goal itself. Leaders, fed by their team, define what they want. This happens at individual level, team level, at the level of the organisation, most often in that order. As a consultant, you can provide advice about the what. But most often consultancy and coaching will focus on the how: to get the leaders where they want to be. One can set the highest goals ever, but if you cannot give a convincing story on how to reach these goals, the motivation of staff to help you get there will plummet rapidly. These are obvious things which are easily forgotten when focusing on the ‘what’ and overlooking the ‘how.’

Collective capacity for adding value

If a company or organisation really wants to execute its strategy, a pivotal role lies in its culture in which leadership and staff can do their work to reach the targets set. How is this culture created and nurtured? For the definition of culture, I refer to the former CEO of IBM, Louis Gerstner, who said: ‘Culture is not one aspect of the game. Culture is the game.’ Culture is the collective capacity of people adding value. Many people may perceive culture as just one aspect, thinking the culture of the organisation they work for is open, closed, conservative, relaxed, etc. However, it is much more than that. Culture is the base on which people feel trusted, dare to talk, dare to criticise and dare to come up with ideas.

Source: Cecile Cururs/Gette Images



If you feel that, for whatever reason, you have an idea or suggestion, the culture in an organisation will be a compelling factor, if not THE factor, to decide whether or not you will bring the idea to the table to contribute to the 'how.' It is easy to comment on an idea brought forward, to comment on it as a staff member, as a manager, as a leader. But how do you deal with that, how do you actually do that? Do you embrace it or do you criticise it? How do we give feedback to each other? Giving

feedback is something which should be done much more in organisations than we do today. There again, it is very much about *how* we give the feedback, than about *what* we want to say. What we want to say, we know, but how to convey that information is often more troublesome. Whether you want to embrace or reject an idea, how you do this depends on the culture of an organisation and defines the way people act and work together. It is actually these apparently small aspects that define the difference between taking an organisation forward ... or making it stall in comparison with others.

Such behaviour works both ways: respectful behaviour preserves the interest of others in continuing to add value. And respectful behaviour is giving people responsibilities and attaching consequences if they do not fulfil them. This should also be done out of respect towards those staff members who do. This forms an essential part of a culture where adding value is recognised. There is nothing more demotivating than keeping bad performance sitting next to good performance and rewarding them equally.

Identifying the real drivers for staff to excel

The world we live in is changing rapidly, for some of us even at a disruptive speed. Many will relate these changes to material aspects, based on changing technologies and digitalisation. But equally important is the immaterial change that also has an effect on what makes up the key drivers for people to work. This immaterial change literally shows a de-materialising trend, leading younger generations - who increasingly make up the workforce in the private and public sector – to make different choices.

Motivational factors for younger generations are different from those of the three generations after the Second World War. Those generations had a sort of growth motivator: the ambition to have a bigger house and bigger car than their parents. But our children already had the big houses, the fancy cars and nice holidays when growing up. Those are not necessarily key drivers anymore. The younger generations see things from a different angle. It is not the material superlative anymore, since they relate that also to too much stress, too much pollution, too many traffic jams. More than half a century of growth thinking – and putting it into practice – has also had a number of negative effects for the world. Young employees often have a different motivation and telling them what to do – just by simply telling them - is something they accept less than previous generations did. In addition, if they do not like it, they tend to change employer much faster than previous generations did.

Changing the strategic objectives of an organisation, especially in those where human capital is your major asset, means that your organisation will need to change too. You will need to adapt your structure to the change you want to achieve. Not for the sake of change. But as the world is changing, organisations need to change, to optimise the ways – the how – to achieve the strategic goals set.

For example, if the strategic goals can be best achieved by a more matrix-oriented organisation, but you keep a very traditional hierarchical organisational structure, including the conventional way of managing your staff, you will run into serious

problems. Imagine that – before – a staff member had one boss, and after the adoption of a different way of working, in the hierarchy he or she continues to have one boss. However, if in today’s world staff members deal in parallel with several teams in a matrix organisation, then this will cause tensions. If you, as a staff member, know that the only person who is going to tell you whether you have done a good job is your boss, it gives you a sort of freedom to do a bad job in all the other areas. This forces leaders of organisations to find a model, a structure, which is broader than only singular management structures, as much as you, as leader, might like that structure in order to feel *in control*. Simply to increase efficiency, which you need as a leader ... to achieve the ambitious strategic goals set, you will have to change.

Another core aspect related to organisational structure is how to reward people. Because the first question a staff member will have regarding any change you introduce in an organisation, is most often: what is in it for me? If, at the end of the day, your staff members cannot find an answer to this question, in the long run the ‘how’ will be at risk, and consequently the ‘what.’

Rewarding staff should not only be considered in financial terms. The first thing people look for in a job is recognition. The second aim is intellectual challenge. The third thing we look for is independence – autonomy, so one can say ‘I did that.’ When staff members get the feeling that they cannot answer the question ‘What is in it for me’ satisfactorily, when there is systematic failure to address reward aspects such as recognition, intellectual challenge and autonomy, then people will not have the motivation to go forward.

Motivation defines the willingness of people to see beyond their own desk, to see where processes and output can be improved. In this respect, think about addressing possible synergies between departments; for companies the links between sales and marketing, stepping across the aisle, building bridges between silos – if they can still exist in a matrix organisation. Otherwise, the only focus staff will have is on their own little desk – as a matter of speaking, since there are fewer and fewer ‘own desks’. That is all they will see, leading to a lack of efficiency in your organisation which may be difficult to identify and therefore to tackle, with obvious consequences for the ‘how’ and an impact on the ‘what.’

Managing expectations to preserve trust

Another important element that may disturb the fine balance between the ‘what’ and the ‘how’ of a strategy is stakeholder pressure. Many leaders, be it CEOs in the private sector or leaders in the public sector, feel the pressure, and scrutiny, from shareholders and stakeholders respectively. Often this is an important trigger for such leaders to engage coaches in the first place: to create a place to reflect on a leader’s own functioning, the direct environment, albeit in a protected and confidential setting. How to reach the goals set, with the staff available, relates to aspects which coaches realise are not only related to numbers, but to culture, to ways of engaging people. The latter often takes more time than expected where stakeholder expectations have been created.

Expectations not met have a detrimental effect on trust. Think about it in corporate terms of sales and marketing on the one hand and operations on the other hand. If you focus too strongly on sales and marketing but you are not able to deliver, you have a problem. If you focus too much on operations - since you are a technical person - and you forget sales, you will go bankrupt, or, in the public sector, become irrelevant and ultimately be abolished. A topical example of the first, intertwining with direct public health interests, is the case of the pharmaceutical company AstraZeneca in respect of its vaccine for COVID-19. Promises for delivery have been made but not kept and the stakeholder’s trust – in this particular case the European Commission’s - has plummeted. It is insight into this balance of what can be presented as targets and the capacity to achieve them which is required at the highest level of an organisation. If it does not exist, trust is at risk.

It’s lonely at the top – while it should not be

Designing a successful strategy is not a one-time action. It is actually quite complex. It involves sophisticated fine-tuning between what is set as strategic goals and how they can be achieved. The latter requires staff and resources, and not only in sufficient numbers.

Key aspects going beyond mere numbers relate to defining the right culture, with clear and shared values, both promoted and lived by top management. This is something a coach can help with, but only to a certain extent, since living a culture requires more than knowing a culture. These values include making people responsible for their actions, both in the case of good performance and bad performance. Convincing action on that front will already be an essential cultural driver towards adding value, value that is recognised by leaders in the organisation. Values, translated into responsibilities, need to include feedback and team efforts. Especially today, in an increasingly complex world, a leader is nothing without a motivated team, a team that does a lot more than obeying orders received: a team that feeds leaders with information and insights, even if not solicited.

Providing feedback and receiving feedback is essential to align people with getting results. This includes feedback from leaders but also from the person sitting next to you: constructive advice, often built on common sense, aimed at getting you to do a better job. You will not always be comfortable with asking for such advice, or receiving it, as it might intrude on what you think you are supposed to be doing. In short, there must be openness to communication, not about right or wrong, but aimed at improvement and most often related to the ‘how’ of a strategy, thereby contributing to the achievement of the strategic ‘what.’

SCHOOL FUTURES - using scenario approaches to inform transformation initiatives in the Luxembourg school system

By Ariane König and Bo Manuel Raber, both at the University of Luxembourg, Gerard Drenth and Ciaran McGinley, both at NormannPartners, and Francis Scharztz, formerly with the Luxembourg National Council for Sustainability

Alternative, plausible, but challenging visions of the future – called scenarios – help us to explore the future today, to familiarise ourselves with a ‘systems thinking’ approach, and to strengthen our ability to address the uncertainties of tomorrow. This anticipation competency, that also includes a capacity for systems thinking and making normative judgements, is particularly important for younger generations still at school. In Luxembourg, the Education Scenarios Project served to develop a set of national scenarios for education, and the sequel School Futures Project helped to leverage these scenarios in school development processes that engaged students as well as teachers in future-oriented systems thinking. Ariane König, Senior Research Scientist at the University of Luxembourg, Ciaran McGinley, Senior Associate at NormannPartners, Bo Manuel Raber of the University of Luxembourg, Francis Scharztz, former president of the Luxembourg National Council for Sustainability, and Gerard Drenth, Senior Associate at Normann Partners, worked with in collaboration with diverse stakeholders in the Luxembourg education system, including with students and teachers from three different schools in Luxembourg. Below they share insights and experiences relating to the scenario approaches used.



**SCHOOL
FUTURES**
Schule und Lernen für
Welten im Wandel

Source: SF

Young people contributing to system change, not climate change

School strikes organised by the *Friday4Futures Movement* made a clear call for the transformation of schools to equip learners to contribute to ‘system change, not climate change.’ But what is the future of sustainable education? How can one learn to better address complex and interconnected sustainability challenges, including the growing risk of pandemics, the ongoing 6th mass extinction of species – caused by humans – and extreme weather events?

Our future will be strongly influenced by changes in demography and social and cultural norms, technological innovation and environmental change. Changes across all these spheres are interconnected. Silver-bullet solutions for one issue may backfire in another domain. And yet, the way in which society produces new knowledge is organised in disciplinary silos, sectors, and professions, silos and sectors around which many education systems and their curricula are built.

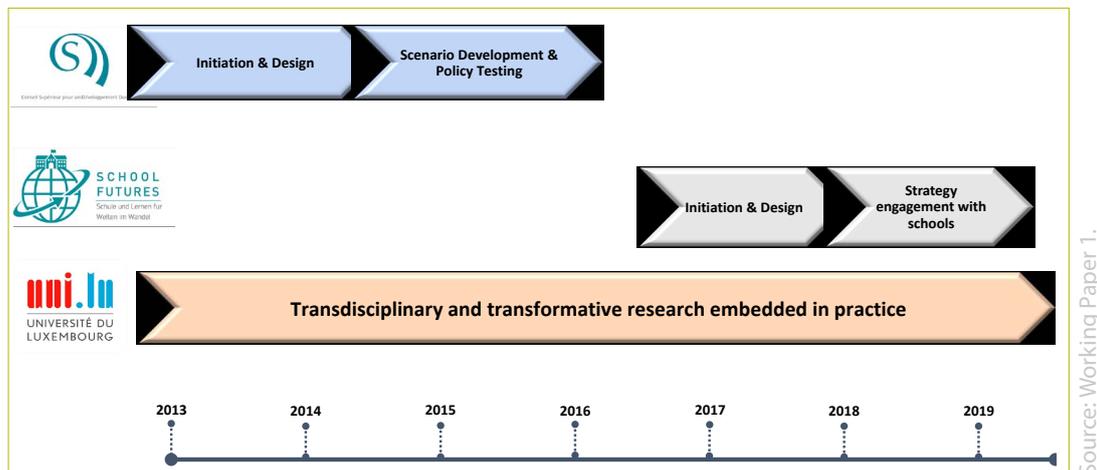
What can individual schools do to steer their way through times of turbulence and uncertainty? These were core questions behind two consecutive projects on the future of education in Luxembourg.

These two projects (see **Figure 1**) served to challenge all participants to explore the purpose and organisation of education, and how it might plausibly unfold against the backdrop of accelerating and interconnected changes in society, technology and the environment. A more detailed paper on the underlying concepts, methods, processes, outcomes and impacts was recently submitted for publication¹.

¹ König et al. , *Navigating school transformations for resilience: Exploring the potential of scenario thinking approaches to structure learning for resilience in school systems and schools*. Submitted to the international peer reviewed journal *Sustainable Consumption*, 2021. Figures 1 to 4 have been drawn from this paper.

This set of two projects present a first example of transformative research for sustainability in Luxembourg. The aim of such research is to co-design, implement and learn from concepts, methods and participatory processes as well as spaces for reflection and judgment to actively contribute to changing practice and policies for sustainability in different settings together with the stakeholders in those settings.

Figure 1. Using scenario approaches to inform transformation of the Luxembourg schools and the school system¹



SCHOOL FUTURES Project, University of Luxembourg - available on www.sustainabilityscience.uni.lu

Source: Working Paper 1.

Education and the Luxembourg context

With over 60% of school children from foreign residents in a population of just over 625 000 people, Luxembourg's tri-lingual school system faces particular challenges. It comprises about 240 schools, with around 30 high schools and one university.

Failure rates at school leading to repetition of a year are exceptionally high (close to 20% of students repeat at least one year) and represent a significant factor in the average costs of education per student that are well above the average in OECD countries. Students are assigned to rigid specialised study tracks at the age of twelve. Teachers are contracted directly by the Ministry of Education and the remuneration of a primary school teacher is comparable to that of a professor at one of the German universities just across the border. Furthermore, the population has above average education levels in terms of both completed secondary schooling and higher studies.

The CSDD 'Education Scenarios Project'- Exploring the future through scenarios

Scenario sets are neither predictions nor strategy; they are several different but equally plausible and challenging stories (or narratives) about the future that are differentiated from each other by considering variations in important drivers of change (see **Figure 2**). Scenarios can also be compared to charts to help imagine very different places in the future that no one has yet visited. As such they can serve as common points of reference to explore alternative futures collaboratively in diverse groups. Scenario sets are not meant to be accurate predictions – in fact the method was developed on the assumption that the unpredictability of the future needs to be embraced.

Figure 2 - Variation of the six key drivers across the Luxembourg education scenarios

	GLOBAL COMPETITION <i>Science as culture</i>	REGIONAL AUTONOMY	1,000,000 <i>Conflict & mass migration</i>
GEOPOLITICS & POWER	Globalised economy and power blocks.	Regionalisation. Multi polar disorder.	Mass migration to stable countries and regions.
ENVIRONMENTAL SITUATION	Low priority. Occasional technical fixes. Ecosystem deterioration.	Strict control of access to scarce resources.	Spiralling out of control. Widespread pollution.
ECONOMY & TRADE	No change. Capital dominates.	Regions first. Protectionism and continent specific credit rating systems as barriers to FDI.	Wealth flows to stable markets, further aggravating conflicts.
SCIENCE, TECHNOLOGY, KNOWLEDGE AND EDUCATION	Global STEM knowledge dominates	Local, place-based knowledge prevails. Collaborative skills to collectively ensure existential needs are met are at the core of the curriculum	AI dominates. Sought after human skills are adaptability, system thinking and social.
ATTITUDES TO MIGRATION	Only for the elite	Environmental migration with in regions. Otherwise discouraged.	Welcomed in aging societies but integration is a must.
SOCIAL COHESION	Individualist, entrepreneurial, fragmented.	Local strongholds. Global fragmentation.	Extremes of multi cultural co-existence lead to tensions and violent outbreaks.

Source: Working Paper 1.

SCHOOL FUTURES Project, University of Luxembourg - available on www.sustainabilityscience.uni.lu

From July 2013 to December 2015, a set of three plausible, challenging and relevant scenarios were co-created under the auspices of the CSDD in collaboration with the University of Luxembourg. This phase of the project brought together the views of multiple stakeholders, including teachers and employers, policy makers, non-governmental organisations working on inclusion challenges, and parent associations. The participants' age range was 17-70. As described in the University of Oxford's Scenario Planning Approach, a scenario set is created for a specific user, use and purpose. And everyone is considered a learner. All actors, teachers and students alike, explored the contextual uncertainties together as equals.

The three resulting scenarios described the future of education in Luxembourg in 2030 with a particular focus on sustainability (see **Box 1** for the main three story lines). Each scenario looked at how the contextual world, including fundamental and possibly disruptive changes in our global systems or in the EU, would influence the Luxembourg school system, its governance, its curriculum and its teaching methodologies. Sustainability is conceived as comprising a normative goal as well as material outcomes, for example in terms of reducing energy or material flows or enhancing biodiversity in any given place.

The scenario set was tested and validated by a stakeholder workshop in December 2015 and prepared for publication and deployment in early 2016. A short video (available in [French](#) and [German](#)) was made of the final scenario set for sharing with the general public and to support strategy development at individual schools within the school system.

Box 1 - Main story lines of the three scenarios on 'Education in 2030'

Global Competition: A world characterised by strong competition, technological innovation, life-long learning and the absence of public welfare systems and long-term work contracts demands a combination of learning relating to entrepreneurship with strong STEM Skills (science, technology, engineering and mathematics).

Regional Autonomy: A world of diverse local strongholds and regional interests in which the middle class is struggling. Experimentation with alternative governance and technological systems is prevalent and there is a decentralised system of local community-oriented schools that support local and regional social learning.

1 000 000: A world of simmering tensions, where Luxembourg becomes a safe haven for a select elite immigrant population, which is bound together by strong nationally-enforced community educational and social projects.

Working with the 'Education Scenarios' in workshops at national level

In scenario approaches, the path of collaborative work in multi-stakeholder situations is often considered just as important an outcome as the resulting scenario set itself. All those who engage can develop a better *systemic understanding* of the interconnectedness of changes in the social, technological and environmental spheres. Furthermore, dialogues across different viewpoints when constructing scenarios help participants to identify very different understandings of the work, and worldviews and values that different groups of people defend. This can help to develop an improved '*normative judgement*' about what might be acceptable in terms of the implications of different courses of action for disparate groups of people.

The outcome, three very different, challenging but equally plausible futures, emphasises that the future is open and uncertain, if not even wholly unpredictable – but helps to better understand various drivers of change and just how they might interact with each other. It therefore trains anticipatory competences in all who participate. An example of outcomes of a workshop that served to test the scenarios at national level is presented in **Box 2**.

Box 2 - What needs to be changed first in the Luxembourg school system

Outcomes of a scenario workshop:

- *the meaning of learning and teaching* would need to change from learning subject material in a curriculum of facts that might soon be outdated to improving self-efficacy in effecting the changes one wishes to make, and to learning to learn and to love learning;
- *counter increasing risks of societal fragmentation* in an increasingly diverse population, with a focus on responsible citizenship;
- *teach perspectives on systems thinking* that equip students to cope with accelerating and interdependent changes in technology, society, the economy and the environment, by making connections across diverse disciplines that are rarely made today;
- *teach languages*: the acquisition of a high level of proficiency in one core language by each student should be given primacy;
- *ties between schools and the private sector should be strengthened* to start closing the gap between what school education achieves and the skills and competences required by the job market;
- *current early tracking* of students at an early age based on their prior performance has to be changed. The fundamental approach to the evaluation of students' performance should change from punishing mistakes to rewarding great achievements, to reduce rates of class repetition;

teacher training would need to change, in a way similar to what was done in Finland (see e.g. [Sahlberg, 2011](#)), including higher qualification requirements. A culture of research and reflection for improving teaching practices should be instilled;

requirements for the school system to keep pace and self-organise in response to accelerating change: *diversification of the school system* to leave more room for local differentiation with less detailed requirements for adherence to the national curriculum, and more private schools.

The School Futures Project: from scenarios to school development - the Athénée secondary school as a pilot

The overarching goal of the Luxembourg School Futures Project was to introduce future-oriented systems thinking into the Luxembourgish school curriculum. At the level of the school, the School Futures project not only created a framework that engaged secondary school students with their future education, it also involved them in the co-creation of recommendations and a vision of how the school should navigate the future, with an associated set of teaching materials for systems thinking.

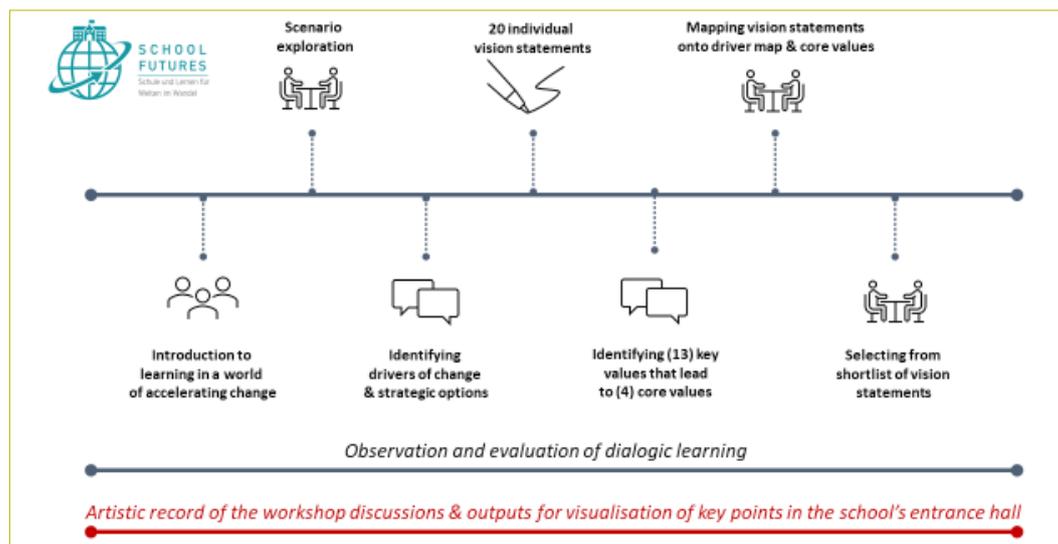
The idea of the importance of co-creation of visions and action fields across generations was embedded in the School Futures Project from the outset. Transformative learning from dialogue across differences forms the conceptual foundation of the project. Such learning can emerge from dialogue between individuals and groups with diverse sets of values and worldviews in which each group is brought to reflect on and creatively reconsider their own ways of thinking and doing. Education itself mostly trains society to break down problems in order to understand isolated cause-effect relationships, rather than to think co-jointly in terms of system elements. This project considered all those who chose to engage as systemic learners, stimulating participants to practice cognitive switching between diverse perspectives, and empowering them to be comfortable in the face of uncertainty.

Three schools, each with its own unique history and target student population, were selected to participate in the project. The academically oriented *Athénée de Luxembourg*, the technology orientated *Lycée Guillaume Kroll* and the *Ecole Privée Fieldgen* – the private school of Fieldgen. The end goal was to help each school co-create approaches with students and teachers on how to compose spaces and processes for learning that can complement teaching in specialised tracks with opportunities to engage in systems thinking. The development of methods and teaching material for systemic explorations of practical questions was co-designed by drawing on contents from diverse subjects and connecting them in a meaningful manner. The national scenario set was then used to promote 'learning for a world of transition' at the level of individual schools. Below we highlight the experience of the *Athénée of Luxembourg*, the oldest school in the country.

Founded as a Jesuit College in 1603, the school has a long history that runs in parallel with the Grand Duchy itself. Today, on a modern campus close to the city centre, the co-educational (since 1968) school has around 1350 students. It is a classical school whose central vocation is to enable its students to successfully complete their secondary school education with a Bacallaureate qualification that will give them access to the very best universities. The main steps that the *Athénée* followed during the second phase of the project are illustrated in **Figure 3**.

Figure 3 - Main steps in the transition from scenarios to strategy: Athénée, Luxembourg

SCHOOL FUTURES Project 'Co-creation of the Education Scenarios for Luxembourg in 2030', University of

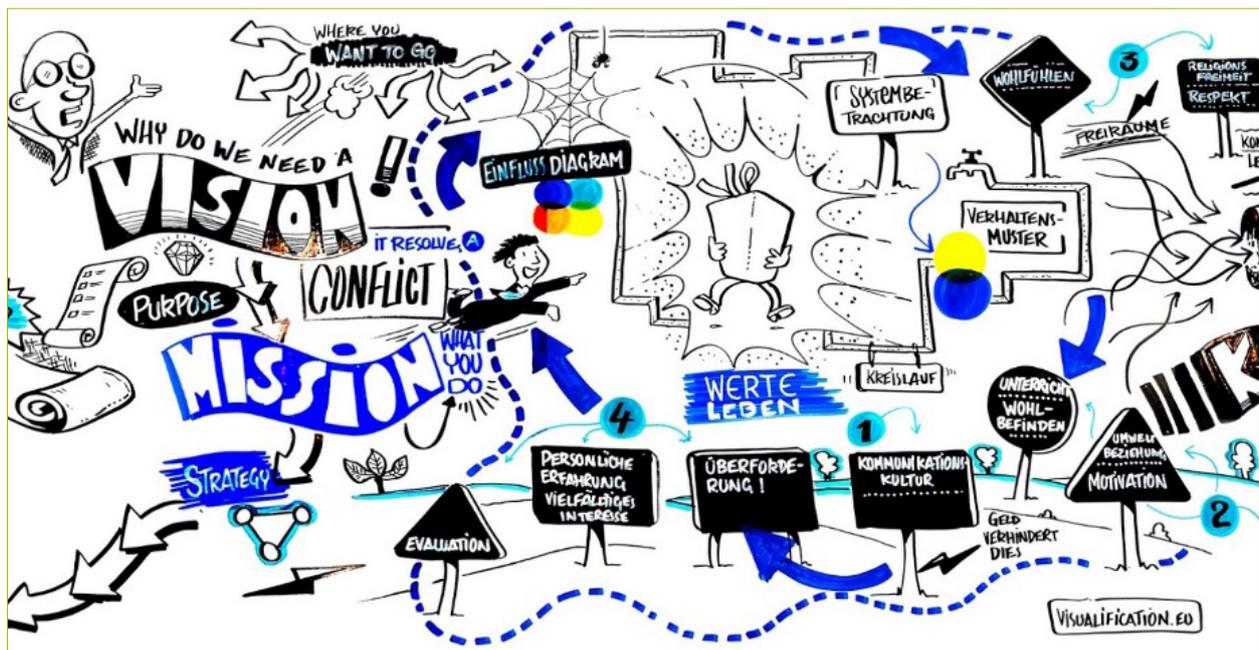


Luxembourg, available on www.sustainabilityscience.uni.lu

Methodologically, the scenarios proved effective in triggering future-oriented and systemic dialogues, in which participants did not only argue on the basis of their past experiences. A key decision element in the process for the second workshop was to start off with students and teachers in separate groups, so that students firmed up their perspectives first, before working in mixed groups with teachers.

The project was also accompanied by an artist, Jorge Bogumil, who created a unique artistic record of the workshop discussions and output, which was placed in the hallway of the school to share key points and create an additional window of accountability on the process (see **Figure 4**).

Figure 4 - Artistic record of the 2nd workshop at the Athénée



Source: Jorge Bogumil
Working Paper 2

SCHOOL FUTURES Project 'Report on the co-creation of a school vision with the Athénée du Luxembourg', University of Luxembourg, available on www.sustainabilityscience.uni.lu

Claude Heiser, Director of the Athénée, who was appointed after the project was established at the school, embraced the new vision, co-created by students and teachers. He gave a commitment that the outputs would inform future deliberations on the school's future strategic direction².

Dialogic learning across generations

Overall, the CSDD education scenario project initiated participatory processes with diverse expertise and perspectives, including policy makers, scientists, teachers, a parent association and secondary school students, to co-create recommendations for necessary changes in the school system and in schools for the future of education in Luxembourg. The multi-stakeholder dynamic in the Education Scenario Project helped to combine diverse perspectives across disparate sets of expertise and experiences, as well as generations, and contributed to developing a particularly rich scenario set compared to scenario sets developed by single institutions, companies or membership organisations. Each individual or organisational actor who chose to engage both contributed to the overall result and gained new perspectives with strategic value in return. The project can therefore also be seen as a networked and interactive value-creating system.

In the School Futures project, however, the most notable thing was the differences in intergenerational perspectives between the students and the teachers and the researchers, revealing the power of intergenerational dialogues to invite deeper reflection and greater openness about what the future might hold and what our spheres of influence might be. The transdisciplinary research approach with carefully and purposefully developed concepts, methods, processes and spaces brought the different actors together in a multi-stakeholder, cross-generational exploration of the future of education in the Grand Duchy of Luxembourg.

2 Full Workshop Report: <http://sustainabilityscience.uni.lu/wp-content/uploads/sites/48/2021/01/SCHOOL-FUTURES-ATHENEE-BERICHT.pdf>
Short-URL: <https://tinyurl.com/y58pyzet>
more info: sustainabilityscience.uni.lu

Observational studies during the workshops served to document the nature of the dialogues (whether too consensual, disputational, or drawing fruitfully on diverse perspectives). Moreover, students had the opportunity to explore systemic interconnections between well-being, productivity, organisational vision and mission, the nature of the built and natural (learning) environment on campus in a systemic manner with reference to the one organisation they were deeply familiar with. This helped extrapolation of how some drivers of change in the global context might influence future changes within and much beyond the school setting, in Luxembourg society at large.

All concepts, methods, processes and learning tools will be published both in print - through various channels - and on the project website on the internet. These materials will be available for transfer and adaptation to other national and school settings by the end of 2021. **Box 3** shows what is currently available.

Box 3 - Additional online reference material

<http://www.oecd.org/fr/education/Education-Policy-Outlook-Country-Profile-Luxembourg-FR.pdf>

https://www.youtube.com/channel/UCnQhQsmv4vHP_6TbuDaXIYw (Luxembourg scenarios for education)

<http://sustainabilityscience.uni.lu/wp-content/uploads/sites/48/2021/01/SCHOOL-FUTURES-ATHENEE-BERICHT.pdf>

<https://sustainabilityscience.uni.lu/>

https://www.researchgate.net/profile/Bo_Raber

<https://csdd.public.lu/fr/actualites.html>

Foresight and audit

Scenario planning – could auditors benefit?

By Huw Griffiths, Holey, and Derek Meijers, Directorate of the Presidency



Julius_Silver/Pixabay

Scenario planning has influenced strategic thinking in big corporates and governments for decades, and the method has undergone significant professionalisation since the 1970s. Huw Griffiths, Director of Holey, a strategic thinking coach and mentor, and Derek Meijers from the ECA's Directorate of the Presidency, participated in the Oxford Scenario Programme of Oxford University's Saïd Business School. Based on that experience, they shed some light on scenario planning and how it could be used by public auditors such as the ECA.

Preparing for the worst can pay off

When an oil embargo hit the Western world in the 1970s following the United States support for Israel during the Yom Kippur war, the skyrocketing prices for crude oil surprised businesses and governments alike. Markets plummeted, and unemployment exploded as oil-producing countries that had once been perceived as push-over former Middle-Eastern colonies exposed the First World's vulnerability by nationalising their assets and instrumentalising them for their political agenda. While politicians and businesses alike struggled to find solutions, for Royal Dutch Shell the crisis did not come as a complete surprise, thanks to its advanced foresight and scenario work, led by Pierre Wack. This enabled the company to deal with the challenge and recover from it much faster and more successfully than its competitors, who faced the oil shock unprepared.¹

Scenarios, strategy and the work of public auditors

The work of public auditors frequently involves reviewing initiatives - the projects or work programmes which arise from the strategies of Member State's governments and institutions - which often require auditors to ask questions such as 'Will they achieve their goals?' and 'Is the initiative well managed?'

In basic terms, many of the questions we ask as auditors are there to answer the question 'Are they doing things right?' But what if the question should instead be 'Are they doing the right things? Auditing current actions or outputs against stated objectives may not

¹ <https://www.shell.com/energy-and-innovation/the-energy-future/scenarios/new-lenses-on-the-future/earlier-scenarios.html>

address such questions or revisit whether the key assumptions and forecasts on which the original strategy or business case were based are still valid.

But does it matter if auditors do not question the underlying strategies which guide the initiatives which we audit? Several studies in the private sector suggest that in times of greater uncertainty or significant change, critically reviewing commonly accepted strategies may lead to better outcomes. For example, a 2015 [article in the Harvard Business Review](#) on managing different types of risks identified that 86% of significant losses in market value were caused by strategic risks, but only 6% of auditors' time was spent assessing this type of risk.

Demystifying strategy

If auditors were to review the strategies or business cases underpinning the initiatives we audit, what might we find? Several surveys² on organisations' ability to develop, communicate, and execute their strategy show that the standard is not generally high, which suggests that reviewing strategies may provide a useful new audit control point for securing better outcomes.

Beyond the statistics provided by such surveys, the 2018 book [Thinking the Unthinkable](#) provides rather sobering first-hand insights into the often privately held struggles with strategy and decision-making experienced by many leaders in both public and private organisations.

If auditors were to start reviewing strategies how might we approach that task?

A first simple rule is to recognise that for many established organisations, the annual or multiannual review of their strategy really decides between two fundamental choices - to either continue doing what they have done in the past or do something different. Different in this context may apply to changing either *What* the organisation does, or *How* it does it, and occasionally revisiting *Why* they do what they do in the first place.

For many organisations the unvarnished reality is that their 'new strategy' is really to just continue doing the same thing as they did in the past, if what worked in the past is still expected to work well in the future. After all, 'If it is not broken, why fix it?' Changing organisations with their established resources and processes is often hard to execute, as it brings with it lots of new risks and uncertainties, so most tend to avoid it.

The result is that whilst on the surface, many organisations may proclaim a new strategy each year or so, the underlying truth is often that these changes amount to little more than minor adjustments to their goals, objectives or strategic themes. Overall, their strategic direction generally maintains the same course, apart from some incremental innovation and the occasional minor course correction to keep pace with changes in their industry.

For auditors, this means that the question of 'Are we doing the right thing' is often not raised. Indeed, asking such questions may not add much value from an auditors perspective if the chosen strategy and resulting work programmes use tried and tested approaches and if the environment in which that initiative will operate is not expected to change much over time.

When change matters

But what if you think that future industry or wider environmental conditions may change significantly, or that past performance may no longer be a good guide to what will work in the future? How might auditors identify when it may be appropriate to review the strategy or business case for an organisation or a particular initiative under audit?

A second simple rule is to recognise that strategic change is often triggered by one of the two following situations:

1. an internally driven conscious decision to change, which is often brought about when new leadership or ownership takes over an organisation with the intention of pursuing new opportunities or objectives;

² See for example [this PWC guide](#) or [this article](#) in the Harvard Business Review

2. a current or predicted significant change in some external factor or factors on which the current strategy is dependent. Examples may include the disruptive actions of a third-party actor, a change in market or industry forces, or changes in macro-economic forces in the wider environment.

The first is a choice; the second is a response to external factors outside of the control or influence of the strategist and their organisation.

With changes to external factors, the first challenge is recognising that they are occurring today or may occur during the design life of the initiative. Many organisations and their leaders struggle with spotting the signals for change beyond their immediate planning horizons or are simply not looking broadly enough for them in adjacent markets or industries. Books such as Nicholas Taleb's *Black Swan*, Daniel Kahneman's *Thinking, Fast and Slow* and Hans Rosling's *Factfulness* point to an underlying weakness in humankind's ability to foresee or predict outcomes, including the experts!

Identifying the need to change, what to change and how to change is a challenge often addressed by the practice of strategic thinking. That practice may involve several strategic thinking tools, frameworks or methodologies - which we will refer to collectively as just *tools* - many of which have been developed over the last 50 plus years by both academics and practitioners. For example:

- Michael E Porter's 1979 Harvard Business Review Article [How Competitive Forces Shape Strategy](#) introduced the 'Five Forces Analysis' method to identify changes within markets or industries brought about by any of 5 forces external to a firm;
- Clayton Christensen's 1997 book [The Innovator's Dilemma](#) builds on a 'Five Forces Framework' by identifying different 'playbooks' used by either new entrants or substitutes in a given market which can lead to the disruption of a current market, and also identified the tactics of 'fast followers' who often copy the strategies of leading organisations;
- the '[Pest Analysis](#)' (political, economic, socio-cultural and technological) technique and its many variants summarised the need to understand the macro-environmental factors within which an organisation and its market for goods and or services exist today and in the future.

From an initial strategic thinking analysis, there may come a clear and accepted recognition that a change in strategy is needed in response to a wider forecast change in external factors beyond our control or influence. If the nature of that external change is understood, it is often just a question of resetting your strategic direction by either refreshing your value propositions, or transforming your business model or operating model to adapt to the future "new normal" in the external environments.

However, what do you do when the view of the future derived from such tools or forecasts is far from certain, and the case for changing strategic direction is not clear?

Certainty vs uncertainty

The Nobel Prize winning economist Kenneth Arrow observed that 'Our knowledge of the way things work, in society or in nature, comes trailing clouds of vagueness. Vast ills have followed a belief in certainty.'³ So what do we do when our view of key factors or conditions on which a strategy depends in the future are not just a little vague, but more like looking into a thick fog of uncertainty?

What might you do as a public auditor when some of the key assumptions in a strategy or business case just do not ring true, but there are no hard facts to challenge the forecasts or predictions of the sponsoring organisations or the experts that they engage? How might an auditor legitimately challenge when key factors, forecasts, hypothesis or assumptions are presented as certainties or likely probabilities by the initiative sponsors?

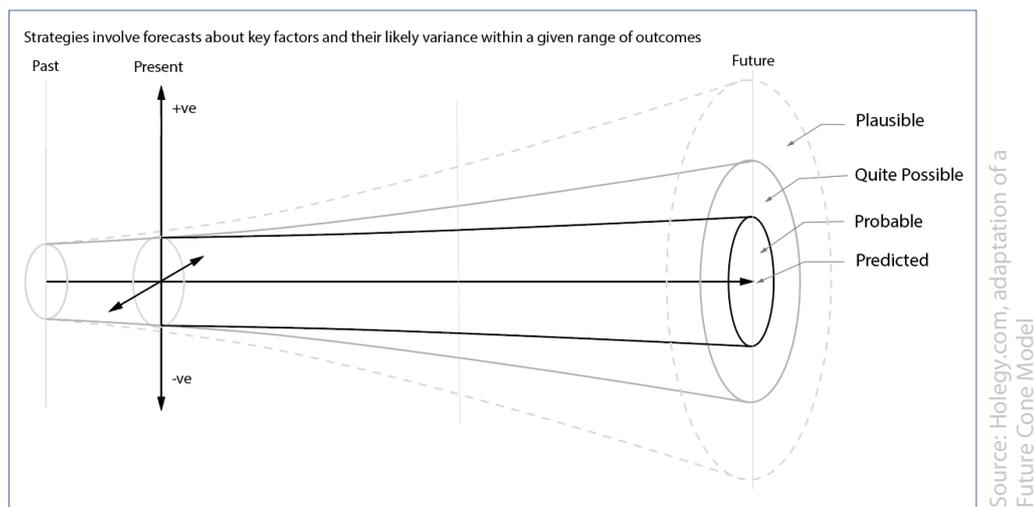
3 Quote from the introduction of the book by Peter L. Bernstein, *Against the Gods: The Remarkable Story of Risk*, 1996

In situations where the view of the future is very uncertain, the 'classical' tools used in strategic thinking and strategic planning are often far less useful. Several of the main failings of the classical approach to strategy were highlighted in an article by Roger L. Martin in the Harvard Business Review entitled *The big lie of strategic planning*, such as mistaking a planning exercise for strategy development, thinking too much in terms of costs, or creating a strategy only around what you can control.

So if the classical strategic management tools do not hold all the answers, what are the alternatives?

Figure 2 illustrates an adapted 'Futures Cone' model overlaid with terms to represent the degree of certainty in a forecast future on which a representation of an organisation's strategy or business case can be overlaid.

Figure 2 – Futures Cone Model



Whilst this model is conceptual in nature, it helps to highlight the tendency for people to stick with what is known, predictable and certain within the solid lines of the cone. The cone model lends itself as a visual metaphor for what was historically called tunnel vision, but is now often described in more detail as different forms of cognitive biases, such as confirmation bias, anchoring bias, availability bias and the recency effect⁴.

Choosing the right tools for uncertain conditions

What can you do in situations where you suspect the future may lie outside of what is claimed to be the probable or even the quite possible cones?

When facing an uncertain future, it is useful to name the different types of conditions driving the uncertainty to better understand them. Several categories of conditions to watch out for have been identified by researchers and practitioners, such as VUCA (Volatile, Uncertain, Complex & Ambiguous) introduced by the US Army War College in the late 1980's and TUNA (Turbulent, Uncertain, Novel & Ambiguous) a term defined in Oxford University's Scenario Planning Approach.

If the initiative that you are auditing is facing VUCA or TUNA conditions, then, as mentioned above, the implication is that many of the classical strategic planning tools may not be much use. An overreliance on such tools during such conditions may mislead people into a false sense of certainty as they anchor their beliefs to patterns or lessons from the past. After all, the past is usually a good indicator of the future, until it is not.

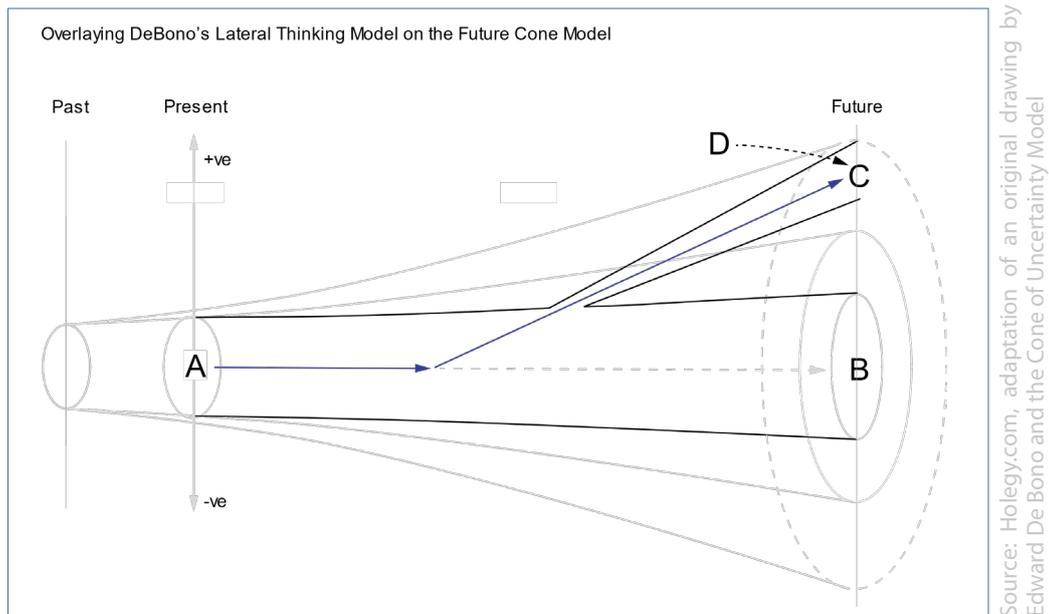
So how do you, or those involved in the initiative that you are auditing, get to a position from which you can see a wider range of possible future situations which may have a significant impact on the viability of the initiative? With simple challenges in strategy and innovation, it is common practice in many organisations to encourage people to 'think outside of the box' or train staff in the use of tools that promote lateral thinking,

⁴ When asked to recall a list of items in any order (free recall), people tend to begin recall with the end of the list, recalling those items best (the recency effect).

such as Edward De Bono's 'Six Thinking Hats' or the use of **PO - Provocative Operand**, an artificial challenge to the current way of thinking invented by DeBono to provoke lateral thinking.

Indeed, the basic visual representation of DeBono's lateral thinking method overlays quite neatly on our earlier Future Cone model, where insight into a new possible future C, diverts the initial A to B strategy to a new A to C strategy. Sometimes C can only be seen by first positioning yourself at D – an artificial PO which provides a new perspective (see **Figure 3**).

Figure 3 – Future Cone + Lateral Thinking



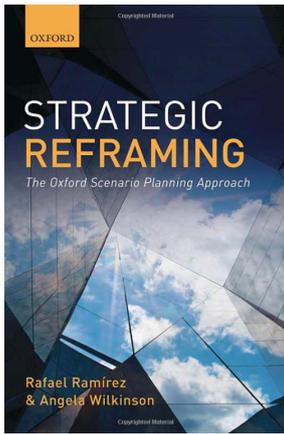
If lateral thinking techniques do not provide quick but effective challenges to a prevailing strategy, what are the alternatives for developing credible challenges to a strategy when faced with VUCA or TUNA conditions? One of the most rigorous approaches is Scenario Planning.

What is scenario planning

Scenario planning is a practice which aims to reframe your view of the future through the development of a range of scenarios - or alternative frames of the future - to test if the strategy will still be effective in the face of such altered conditions. Scenarios are intentionally designed to challenge the strategist to question what might need to change with their strategy if a scenario were to become reality, so that under those conditions the strategy and the initiatives or organisation that it guides will still succeed.

Scenario planning does this by varying several key factors which underpin the core assumptions in a strategy. Often these factors are changed beyond the tolerances that may have been assumed would occur in any strategic planning process or business case formation.

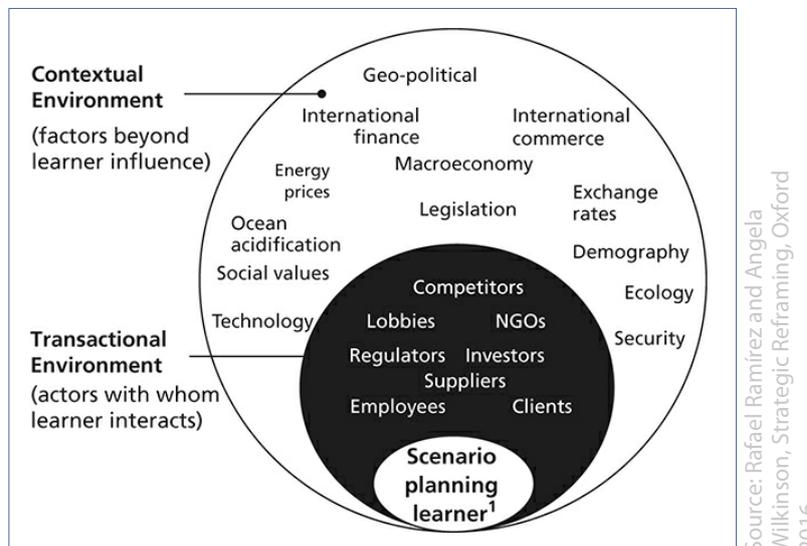
In this way, scenario planning is different from methods such as forecasting and foresight, which try to predict more accurately what the future will hold. Scenario planning is there to challenge what will happen if the future *does not* turn out as predicted and you find yourself existing in the more challenging but plausible environments envisaged by a scenario. Scenarios can therefore be seen as a well-constructed more detailed version of De Bono's PO concept – an artificial, but plausible view of the future designed to challenge strategic thinking outside of the current frames of reference (see **Figure 4**).



With that dot firmly pencilled in on the map, you can start elaborating the landscape in which it is located. Now try to find out which factors are, and which ones are not, considered in your analysis, or what is left out of the frame. Hence the term strategic reframing, which is also the title of the [handbook](#) written by Rafael Ramirez and Angela Wilkinson on the Oxford scenario planning approach.

For any scenario to be useful, to be substantial enough to learn something from it, we must carefully explore our own position, what we want to know, but also list all the things we do and do not know on the different levels of our environment, and how these relate to us. The Oxford approach uses a model of the contextual environment in which to construct their scenarios, which then challenge the transactional environment of the organisation and its strategy (see **Figure 5**).

Figure 5 – Oxford approach: factors and actors



Source: Rafael Ramirez and Angela Wilkinson, Strategic Reframing, Oxford 2016.

In short, the Oxford approach to scenario planning entails 'a methodology that uses the inherent human capacity for imagining futures to better understand the present situation and to identify possibilities for new strategies.'⁵ It is applied mainly in institutional planning contexts, such as businesses, government agencies, and intergovernmental bodies, as well as in not-for-profit and community contexts (see **Box 1**).

Box 1 – The Scenarios Programme of Saïd Business School at Oxford University

Developed by Kees van der Heijden, Angela Wilkinson, Rafael Ramirez and others, the Oxford Scenario Planning Approach is an intellectually rigorous approach to scenario planning with theoretical aspects grounded in practical guidance. It offers a different approach to strategy development, asking participants to focus on strengthening their ability to cope with uncertainty and secure the opportunities it offers instead of trying to predict the future.

The programme encourages adopting a more inquiring approach as a means of effectively forging a culture where disagreement becomes an asset to build better understanding, not a liability to be avoided. Opening participants' thinking allows them to better identify shared opportunities and how to leverage situations to suit their organisation's specific challenges.

The Oxford Scenarios Programme helps individuals and teams with responsibility for improving the way their organisations approach strategy and planning. The programme is constructed around live case studies, intensive cooperation with global class mates and in-depth client feedback, and is facilitated by world-class scenario planning and strategy experts.

5 Rafael Ramirez; Angela Wilkinson, Strategic Reframing, OUP Oxford, 2016

Using scenarios... may impact the how and even the what

The Oxford approach to scenario planning is not meant to predict how the future may unfold. Instead, as when setting a route on Google Maps, it can be used to analyse different ways of getting from point A to point B. In a way, it is a mapping exercise of what the landscape and conditions could very well be like. Based on this presumed information, you should ask yourself what that would mean for the itinerary, equipment and means of transportation you would select for that trip, and, most important, how realistic that all is.

Scenario Planning may result in you realising that B is not the best destination, and instead you should head to a new point C. At the end of your scenario exercise, you should have an overview of different possible routes that lead to different plausible destinations. Here, it should be noted that scenarios do not simply describe different outcomes in the same world, but actually different outcomes in different worlds. These should first provide different perspectives on the past, present and future and then inform the strategic planning and decision-making process, not replace it.

It is important to bear in mind that scenarios primarily serve two purposes. First, to help anticipate and understand risks related to your environment. Second, the so-called entrepreneurial purpose, through which you can discover strategic options of which you were not previously aware. This last one is the most important purpose for long-term strategic thinking.

Just as scenario planning enabled Royal Dutch Shell to anticipate the 1970s oil crisis, to some extent, scenarios have played an important role in South Africa's transition from oppression and systemic racism to democracy and freedom. As discussed in detail in Adam Kahane's book *Transformative Scenario Planning: Working Together to Change the Future*, the South African government has used scenario planning on different levels and areas of public policy making and for virtually all economic sectors and involving citizens, politicians and businesses alike. These exercises helped bring together views from all parts of society and allowed for well-substantiated public policy that could count on support from broad layers of society. Since the end of Apartheid, several nationwide scenario exercises have helped the country's governments to analyse complex national problems, and plot an ambitious and inclusive path towards a prosperous future.

Scenario planning for public auditors such as the ECA

But how could public auditors make use of scenario planning? The goal of incorporating scenarios in the ECA's audits is not so much to sketch an accurate image of what the future will look like, but rather to gain a profound understanding of different aspects of a certain issue, as well as the drivers and variables that will impact the future development of that issue, thereby improving the forward-looking quality of ECA audits and reviews.

Scenario planning could for example add value when developing recommendations, building on the detailed findings and conclusions resulting from the audit fieldwork (see **Box 2**).

Box 2 - Issuing scenario-based recommendations

In this case, an audit could result in a limited number of plausible scenarios, for each of which the auditors would formulate recommendations. These scenario-based recommendations would give a clear overview of options an auditee would have and what the expected impact of his follow-up actions would be. Offering such alternatives would not only add flexibility regarding the follow-up measures an auditee is capable of or willing to take, but it would also improve the value of the ECA's work, as it would cover a broader horizon, taking into account changing conditions.

Linking strategic foresight and scenario planning

In recent years, the ECA has developed its strategic foresight activities to map potential audit topics, support the selection of audit tasks and their programming, and ensure their relevance for citizens, parliaments and other stakeholders (see [ECA Journal 10/2018](#) for more information on this). The ECA also made use of its strategic foresight activities during the preparatory process for the new ECA 2021-25 Strategy, for example to map and project our role as the EU's independent external auditor in the years to come.

As a public auditor, the ECA does not have the in-house capacities to explore strategic foresight in depth. But it can build on the work of its partners at the other EU institutions (see **Box 3**).

Scenario planning and strategic foresight are two closely linked methods, as the former needs to be based on broadly recognised information and foresight work. Moreover, both approaches are aimed at providing political decision makers with insight into the steps and measures that are necessary to move policies in a certain direction or to prevent risks from materialising. Scenario planning not only exposes policy makers to different plausible futures, but is also a tool that auditors can use to test their conclusions and recommendations and how these may hold up under changing circumstances. Employing scenario planning may therefore add to the relevance and authority of ECA recommendations, and therefore merits further exploration and testing by the ECA to support the implementation of its new 2021-25 strategy.

Box 3 - ESPAS

[European Strategy and Policy Analysis System](#) (ESPAS) is an interinstitutional network on strategic foresight. Members of this network are the Strategic Foresight and Capabilities Unit of the European Parliamentary Research Service (EPRS), the Competence Centre on Foresight in the European Commission's Joint Research Centre, the Commission's in-house think tank IDEA (Inspire, Debate, Engage and Accelerate Action - formerly known as the European Political Strategy Centre), the Council of the European Union and the European External Action Service. The European Investment Bank, the Committee of the Regions, the European Economic and Social Committee, the European Union Institute for Security Studies and the European Court of Auditors participate as observers.

New ECA Members

External audit as a catalyst for change

Interview with Helga Berger, ECA Member since 1 August 2020

By Gaston Moonen



Helga Berger

With the confinement rules still in place at the ECA, many people may only have met Helga Berger virtually since she started as ECA Member in August 2020. But virtually or in person, she radiates enthusiasm to make a difference to the ECA. Having a lot of experience in various branches of the public sector in Austria, but also at EU level, she believes that the ECA has several features that favour a contribution to a change for the better in the EU. This relates both to short-term concerns, such as crisis management, and long-term issues, such as contributing to systemic improvements. She considers communication to be key to the ECA contributing successfully.

Serving the public cause from day one

Starting in a new position in the middle of the summer can be a challenge in normal circumstances, and the arrangements relating to COVID-19 may have made things even more complicated. Helga Berger arrived from Austria on 1 August 2020 to succeed Oskar Herics as ECA Member. 'Everything was different last year, both in Austria and Luxembourg. August in COVID times may not look like the best period to start, but thanks to the good preparations made by the ECA's staff, it was actually easy for me to get started, with the right technical means, the IT support.' She would have preferred personal contact with other Members, her cabinet staff, the audit directorates, etc. 'But it was fine for me, also giving me time to come on board, to integrate, to read papers.'

For Helga Berger, the public sector is not new, on the contrary. She grew up in Frauenstein, where her father was mayor, and had close encounters with public service activities at a young age. 'At the municipal level your work in the public sector is directly visible. Citizens demand you take responsibility. The way I grew up comes out in the way I work now: my yardstick is that, with everything I do, I have to be able to explain it quite easily to the public. I think that as long as you are convinced that you can proudly tell anybody what you have done today in the office, it has been a fine day.'

Being a lawyer by training, she confides that initially her professional aspiration was to work as a judge. 'This independence, based on facts and figures, has always related to core values for me. I finished my law studies in Graz soon after Austria had joined the EU. In 1995, there was this very buoyant mood in Austria and I was interested in what was going on in the world.' To broaden her horizon she started looking for a job in European institutions, including in Brussels. 'To experience how the system was working in practice, after having learnt in theory what the EU was.'

An opportunity came up at the European Parliament, as assistant to an MEP, and she explains that it was more curiosity than political ambition that made her go for it. 'You have to take your chances as they come. I am interested in politics but I prefer to work more in the background. In principle, I am "a detail-loving numbers person" [in German "Detail verliebter Zahlenmensch"]. For that reason, a position more in the background, behind the politician, is perfect for me.'

“*You have to take your chances as they come. I am interested in politics but I prefer to work more in the background.*”

From Brussels, she returned to Austria, to work as deputy head of the Governor's private office in Carinthia. After working in this position for well over a year, she moved to the national level, working as head of private office of the Austrian Vice-Chancellor, then Susanne Riess. 'A very impressive personality. But after she stepped back it was clear to me I would not stay in this area. The desire for independence had grown while I was close to politics. So I decided to finish my training as a judge, and was appointed as a judge to the Regional Court in Vienna in 2006.' But she missed the dynamics of being close to politics. 'After experiencing those days of intensive activity, working as a judge was not that exiting and interesting for me.'

Helga Berger decided to work for the Austrian Court of Audit, to work in communications and relations with parliament and serve as the press spokesperson of the institution. 'It was a wonderful time, working intensively with a very energetic president, Josef Moser.' After five years as Director-General at the Austrian Court of Audit, she changed to the Federal Ministry of Finance as Director-General for the budget and public finances in 2016. 'I was the first woman in this position, the first woman DG in this ministry. Perhaps my gender has been an advantage for me. Fine for me, I have taken the chances offered.'

Performance in the public sector has many aspects

With about ten years of work experience at the Austrian Court of Audit, Helga Berger knows public audit inside out, and how public audit institutions differ in the way they are organised and what they focus on. 'With one single person as president responsible for the institution, as at the Austrian Court of Audit, I think it is often easier to get changes through an organisation. Another relatively 'new' issue for me is the substantial resources the ECA allocates to its annual report with special focus on financial and compliance audit tasks, leading to the Statement of Assurance. At the Austrian Court of Audit, only about 5% of its resources go into this area. There the focus is predominantly on performance audits, but there is not such a clear distinction made between financial, compliance and performance audits as at the ECA. The approach is that everything public entities are doing is based on laws, and for that reason there are almost no audit reports in Austria in which only performance aspects are dealt with. They rather look at a combination of all three aspects.'

She links the issue to the interest of one of the ECA's key stakeholders, the European Parliament. 'If you follow the discussions in the European Parliament on our annual report, they do not think in terms of financial audit, compliance issues, etc.' But in her opinion the situation is similar for performance issues. 'I am really convinced that you cannot say "What a perfect performance" when there are actually problems with legal aspects.'

She sees potential in moving to a more comprehensive approach. 'This could be a way to address how stakeholders are thinking, reflected in their questions. It is only one side of the coin when you ask for this legal and formal aspect. At the same time, you should know what the added value, the outcome, the impact, and for EU issues, the European added value is.' Her experience is that Austria has evolved considerably in terms of reporting on performance and results orientation.

In her view, performance audits should not only be results-oriented but also process savvy. 'If we just focus on the results and impact and not on whether this is achieved in an efficient way, we lose an opportunity. For me a performance audit ideally also covers efficiency and economy, not only effectiveness.' She underlines that covering more aspects does not necessarily mean longer audits. 'We need small and short audits, but also ones which really go into depth and have a wider perspective, touching on systems. Such coverage can produce much more impact.'

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Meaningful audit recommendations can come in many forms

Another issue that she finds highly relevant relates to recommendations. 'In Austria I was used to reports having many recommendations, which were quite detailed. More operative, solution-oriented, with concrete proposals for improvements. The Austrian SAI sometimes presents reports with 100 recommendations.' These are not necessarily all negative since, she believes, once you look into the system, you report on how tasks were performed. 'You also have to take the positive aspects and reflect on them.'

Helga Berger is not afraid that giving very specific recommendations might turn against the audit institution when, later on, the public auditor assesses their implementation through a follow-up audit. 'We should be self-confident in that respect. We have the possibility as the public auditor to look in-depth into the ways EU money is spent and, after the full audit procedure, we should be on the safe side and confident about what we know.' She believes public auditors should be confident, also about the possible impact of their work. 'And for that reason, we could be more specific.'

When looking at the follow-up of audit recommendations she is quite firm: 'At the moment we sometimes focus too much on what is *not* implemented. But we should also report on what has been implemented, thanks to our recommendations. Then we can clearly speak about impact and also about "non-achievements." We have to keep in mind that citizens are asking us about these aspects as well: what has been achieved and not necessarily what has not been achieved.' Helga Berger thinks that the external view offered by auditors also requires willingness to go into details. 'As auditors we have to look, from the beginning of the audit process, at what we expect, what might need to be changed, not only at what shortcomings we can find. If you start with that idea in mind, early on in the process, then you can come up with meaningful audit recommendations.'

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... citizens are asking us (...) as well: what has been achieved and not necessarily what has not been achieved.

Audit reports as a catalyst for change

Having worked at the ECA for over six months, she likes what she sees. 'I think the ECA is absolutely on the right track; it sets high standards regarding topic selection, audit approach and how it reports its findings.'

In her public statements to the European Parliament, she has highlighted that an audit institution, in particular its products, can be a catalyst for reform, inspiring action for change. 'To drive forward reforms you have to look at certain topics from different angles, and not only go for the safest solution. I am convinced that our audit work does not end with publication or discussion in parliament. That is only one part of the process.' In her view, to elaborate key messages - the key conclusions from different audits and on different topics - and look at them together can be most useful. 'Such a process can trigger proposals for improvements, for reforms, system-focused. I think this is part of our job as the external auditor as well. Putting the stones of the mosaic together - one after the other, not only after carrying out the audit but also before, in the way you go about covering a certain theme or policy area, having audit building blocks in mind from the outset.'

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Helga Berger's perspective on this is no surprise, in view of research showing that in her home country citizens see the Austrian Court of Audit as a strong ally, providing transparent and impartial information regarding issues they are concerned about. Helga

Berger observes that this is easier to achieve at national than EU level. 'Quality and impartiality are cornerstones of all the ECA's audit work. What can be more challenging is to select audit topics which are of direct concern to citizens. And that is not always easy with the European agenda. The EU is more distant, it is not that easy to make the link with citizens' daily lives.'

She thinks it is important to choose topics that interest citizens. 'I see that at the ECA we are trying to do so. Perhaps a bigger challenge for us is to be visible at national level.

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Visibility comes through human beings, through a person citizens will recognise as the ECA's face. I think we are all challenged in this area and we should all play our part. Being an ECA Member also means for me the responsibility of being visible. Showing citizens what we are doing, establishing good contacts with them and their representatives – that is part of my job as an ECA Member. And we can learn from each other, step by step, in doing so, using social media, our contacts with stakeholders, etc. To get our products across, our findings, our assessments - our opinion as the EU's external audit authority.'

She explains that she is becoming more active on social media. 'To tell people what we are doing, sending short messages relating to ECA publications and what this means for Austria. Whenever we publish something, I, together with my cabinet staff, try to send it out through my channels.' She gives examples relating to sending ECA findings to the Ministry of Education, to the Austrian Parliament. 'Where possible with a brief reflection on the consequences for Austria. And the feedback is quite good, with replies such as "Well done," "Most interesting," but also questions on how broad our audit work is.'

Having been the Chair of the Board of Ethics at the Austrian Court of Audit, Helga Berger has an interest and experience in promoting ethics in an organisation. Because of her legal background, as a judge, ethical integrity and its counterpart, fraud and corruption, merit her constant attention. This will not change now that she is a Member of the ECA, on the contrary. 'Of course the ECA is not a fraud investigating body and this is not our role. And we should be clear in communicating this. But as the public auditor we have a role to play in our audits of systems. Both at the European level, and at the level of the Member States, we have to be attentive to fraud issues and shed light on potentially shadowy areas, because fraud and corruption are growing in these shadows. Spotting such areas, where there is potential for fraud to occur, is our responsibility.'

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Responsible for a wide variety of audit tasks

As a member of the ECA's *Financing and administering the Union* audit chamber, Helga Berger is responsible for an audit task which touches quite directly on systems to combat fraud and corruption: the audit regarding blacklisting of economic operators. 'It is a perfect audit project to start with as a Member. It relates to systems to prevent fraud, to digitalisation, and you have a mix of audit questions, probing the system against the legal background, looking at legal aspects and the efficiency and effectiveness of the system. In my view, a very good example of a "comprehensive" audit.' She explains that in this audit you have to rethink the solutions chosen to deal with national interests, and the European Commission's interests, including per directorate-general. 'Because the structure and autonomy of different DGs can hinder common solutions as well. Who takes leadership for this horizontal topic and who is responsible for the outcome?'

Another task she has taken up in her audit chamber is the ECA's work on budgetary management. Helga Berger finds this a most interesting topic. 'The structure of a national budget is not comparable with the EU budget.' But having worked as Director-General in the Austrian Federal Ministry of Finance she is quite familiar with several issues that have been raised before in the ECA's annual reports. 'I have worked of course with the absorption rate. For the Austrian government, as a net payer, the RAL – Reste à liquider, was important. I always like the boxes in the annual report because you get examples of what is working and what is not.' She hopes that, in line with the new [ECA 2021-25 Strategy](#), the annual report will feature more country-specific information.

A third audit topic Helga Berger will be specifically working on relates to the area of own resources, an area close to her former responsibilities in the Austrian Ministry of Finance. 'It will be an audit assessing GNI systems. Perhaps not an immediate concern of EU citizens but of huge importance for the public administration and ministries of finance.'

Sharing best practice information is something she values a lot, also regarding the handling of the COVID-19 pandemic at EU level and by the Member States. 'To get such examples into the public domain is important. What are the differences in approaches between the Member States? Who has done what? Just to avoid everybody having to find their own solution for the same problem.' She thinks the ECA, with its overview, can play a role both in describing and assessing such solutions. 'Besides having an inventory of solutions, particularly during a crisis, it is necessary to eventually arrive at lessons learnt, together with those from previous crisis situations, to contribute to a more resilient Union for the future.'

Communicate clear messages – for the sake of an EU that can deliver

When Helga Berger started work at the ECA, its preparations for the new ECA Strategy were well under way, yet still at a stage where she could provide fresh input. In her work at the Austrian Court of Audit, she had particular responsibilities for strategy development. 'In the end communicating what you want to do is most important, as is sending clear messages in our products. Communication means that you have to listen, take up key issues and develop your own ideas, present clear messages, both to your own staff and your stakeholders.'

“ ... communicating what you want to do is most important, as is sending clear messages in our products.

She thinks that such messages are even more important in the times the EU and its citizens are now experiencing. 'Stability and continuity are important and, as public auditors, we can contribute to that. People should have trust in our work.' For her, recent developments have shown that sitting and waiting is not the way forward and can easily lead to more disruption. 'We should be prepared for the coming challenges and take our new strategy as a first step, not the end, a stepping stone to a pro-active stand to contribute to a Union that functions well and delivers to its citizens.'

When asked what she would like to achieve with her mandate as ECA Member, Helga Berger identifies system change - where needed - through ECA audits as a key objective, for the ECA as such, but also for her individually.

'By means of high quality reports I hope to deliver recommendations to improve the systems in the EU that in the end touch on citizens' lives.' As a second point, she refers to the annual report. 'With the digital means now becoming available, and more information becoming available that we as external auditors can build on, I hope that, with less or the same resources, we can provide more information on those countries and areas where things are going well or where improvements are necessary.' Another issue she underlines is visibility: 'I would be happy if, in six years from now, many more Austrians – and other Europeans - know what our role is, what our products are, and why they can trust the EU on the basis of our work.'

“ ... I hope to deliver recommendations to improve the systems in the EU that in the end touch on citizens' lives.

Reaching out

5G security – Time for a more united Europe?

By Annemie Turtelboom, ECA Member and Paolo Pesce, Auditor



Key webinar speakers: from left to right: moderator Damijan Fišer, ECA Press Officer, ECA Member Annemie Turtelboom and guest speaker Michael Chertoff from the USA

Building 5G networks across all Member States is an essential component of the EU's digital transformation. The way 5G is deployed across the EU will affect many aspects of citizens' lives, through developments such as e-health, driverless cars and smart electricity networks. At the same time, given the importance of these networks, security is a major concern. This is why the ECA decided to do an audit on this topic (see audit preview 'Implementing secure 5G networks in the EU and its Member States,' published in December 2020). Shortly after, in early January 2021, the ECA organised a webinar on 5G and security issues. Annemie Turtelboom, ECA Member, and Paolo Pesce, auditor, provide further information on this webinar and the main issues discussed.

Bringing in expertise from overseas

On 7 January 2021, the ECA hosted a webinar entitled 'Towards 5G: Securing Europe's Digital Future?' to explore the geopolitical challenges of the 5G rollout in the EU, while providing insights into the approaches to 5G security in the EU and the US. One of the key questions of the webinar was whether the EU and its Member States can balance timely 5G deployment with 5G security. Featuring a prominent guest speaker, security expert and former US Secretary of Homeland Security, Michael Chertoff, the webinar also offered a trans-Atlantic perspective on the security challenges of 5G.

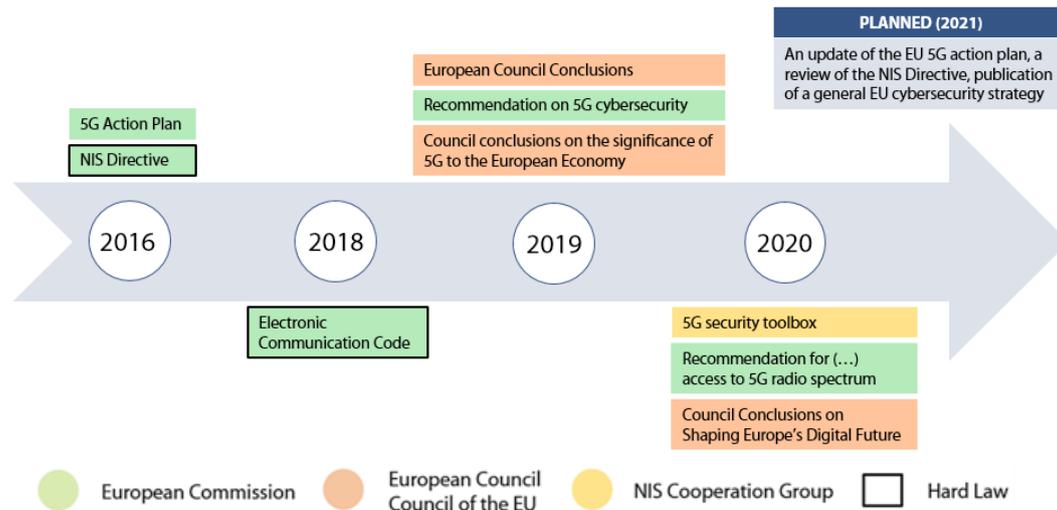
The event took place in the framework of the current ECA audit *Implementing secure 5G networks in the EU and its Member States*, led by ECA Member Annemie Turtelboom. This audit follows on from the ECA review, published in December 2020, of the EU's response to China's state-driven investment strategy, which amongst other things highlighted as issues of concern the use of Chinese 5G equipment in critical EU infrastructure and the lack of a concerted approach to 5G security among Member States.

EU actions related to 5G security

In light of the growing security concerns, triggered partly by the use of non-EU vendors, calls for a concerted EU approach to secure 5G networks have become increasingly vocal.

The EU has already launched several initiatives in the area of 5G, such as the Commission's 2019 recommendation on 5G cybersecurity (see **Figure 1**).

Figure 1 – EU framework on 5G



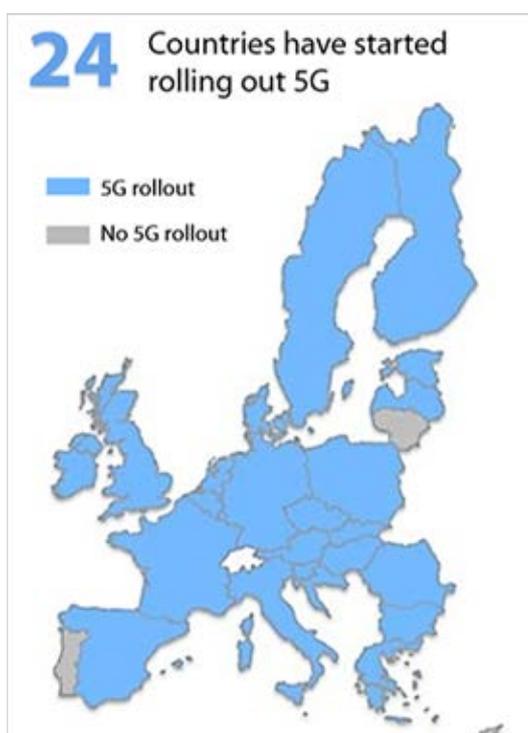
Virtual conference overcoming geographical distance and boosting attendance

The idea behind the webinar was to discuss the content of our audit preview with a renowned security expert. The virtual format allowed the event to take place with a speaker from the US and a large audience from all over Europe. In total, almost 300 participants from 22 Member States and from the UK, the US, China, India and Albania joined the discussions, including officials from EU institutions, supreme audit institutions, representatives from international organisations, national ministries, think tanks, the private sector, universities, and journalists.

In her opening remarks, Annemie Turtelboom highlighted the technological aspects of 5G and its importance for the EU, its economy and its citizens, while also covering security aspects. Michael Chertoff’s subsequent presentation explored the geopolitical impact of 5G and provided insights into the US perspective on 5G security. He also shared his views on security concerns surrounding Chinese 5G vendors.

Finally, Paolo Pesce, head of task for the upcoming ECA special report, presented a [preview of the audit](#) and an overview of the state of play regarding 5G in the EU, including the Member States’ different approaches to security, i.e. high-risk 5G vendors (see **Figure2**).

Figure 2 – State of play on 5G in Europe as illustrated in the press



In this context, he clarified that the purpose of the ECA audit will not be to judge whether it is good or bad that a particular Member State restricts access for a vendor – e.g. Huawei - but rather to establish whether the Member States' different approaches towards high-risk vendors constitute a problem for the EU.

The speakers' analysis of the potential security implications of 5G and their assessment of the current state of play in the EU gave rise to an interesting Q&A session moderated by Damijan Fišer on questions such as:

- how important is EU-guidance in the decision-making process when it comes to allowing specific companies into the 5G infrastructure of a specific country;
- is it appropriate to leave 5G networks to private equipment manufacturers and private telecom operators or should there be a shift towards public-private partnerships to better ensure their security and resilience; and
- how is a 5G security incident in one country going to affect a 5G network in another country.

There was also great interest in the environmental and health-related impact of 5G, which may provide inspiration for future audits on 5G. The webinar was also covered in several European media (see **Box 1**).

Box 1 Coverage of the webinar in European media

Les pays de l'UE sont divisés sur la sécurité de la 5G, selon la Cour des comptes européenne
Par : Samuel Stalton | EURACTIV.com



Cortei dei conti europea, Stati membri divisi sulla sicurezza delle reti
Ritmo diverso nella mitigazione del rischio. E in Svezia il ceo Ericsson boccia il bando del governo contro Huawei



The Brussels Times
EU auditors on 5G: Economic potential and security risks
Wednesday, 13 January 2021



Belgian ECA member Annemie Turtelboom is leading the audit of 5G, credit: ECA

The road ahead

The pandemic has given digitalisation a big push, and good connectivity is key for businesses, households, and governments. As a result, mobile networks have become a key infrastructure, with many services, public and private alike, depending on them. Our webinar highlighted that, with 5G operational, services will become even more dependent on mobile networks. The fact that 5G will have a vast economic impact on the EU (see **Box 2**) added to the relevance of our webinar.

The webinar concluded on the note that fast 5G deployment should not come at the expense of security. As 5G infrastructure and potential threats to its security are of a cross-border nature, any significant vulnerabilities and cybersecurity incidents concerning networks in one Member State would affect the EU as a whole. Hence, there was consensus among the speakers on the fact that 5G should also be implemented by Member States in a concerted way.

Box 2 - Economic impact of 5G

5G technology will greatly affect the EU from an economic point of view. A study carried out on behalf of the European Commission indicates that introducing 5G across four key strategic industries (automotive, health, transport and energy) may generate as much as €113 billion per year, and that 5G investment is likely to create 2.3 million jobs in the Member States.

Reaching out

Online conference with the European Institute for Gender Equality - Gender Equality Index 2020 and handbook on sexism at work

By Bernadett Soós-Petek, Secretary-General's office

Another 60 years to reach gender equality in the EU at the current pace. This is the saddening conclusion reached by the European Institute for Gender Equality (EIGE), based on the latest results of its Gender Equality Index. On 20 January 2020 Carlien Scheele, the EIGE's Director, together with her colleagues from the EIGE – Veronica Collins and Davide Barbieri - presented the key findings from the 2020 edition of the index. They also used the opportunity to speak about another recent EIGE publication Sexism at work: how can we stop it? Bernadett Soós-Petek, attaché to the Secretary-General's office, provides more details on the online event and what was discussed.



Source: EIGE

Making gender progress quantifiable

Gender equality has been an important issue at the ECA for the past decade. Our first action plan on equal opportunities (2013-2017) focused almost exclusively on gender issues: how to provide more flexibility for women to navigate between their private and professional obligations, and how to encourage them on their path to management positions.

We have followed the EIGE's Gender Equality Index ever since it was first published in 2013. The index, with its meticulous methodology, offered a reliable way to make progress quantifiable. It has inspired us to design measurable actions in-house to level the field for all staff to succeed at their careers.



Source: EIGE

Logo of the Gender Equality Index

Main messages of the 2020 index

On 20 January 2020, ECA Secretary-General, Zacharias Koliass, opened the online conference and welcomed our guest speakers. Carlien Scheele, Director of the

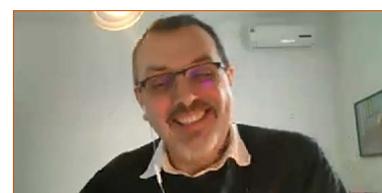


Source: EIGE

Carlien Scheele, Director of EIGE

European Institute for Gender Equality (EIGE), gave a short debriefing of the main conclusions from 2020, a year defined by the COVID-crisis.

Starting from 2015, the index has shown gradual although very slow improvements in gender equality. Now, unfortunately, the COVID-crisis has the potential to derail the fragile gains we have made. With schools and care facilities closed, women's unpaid care load exploded. At the same time, fathers were frequently also doing more. As women are more likely to hold insecure work contracts, they were at a particularly high risk of job losses in the face of the global recession. More women than men left the labour market in some EU countries. Davide Barbieri presented some facts and figures to explain these messages in more detail.

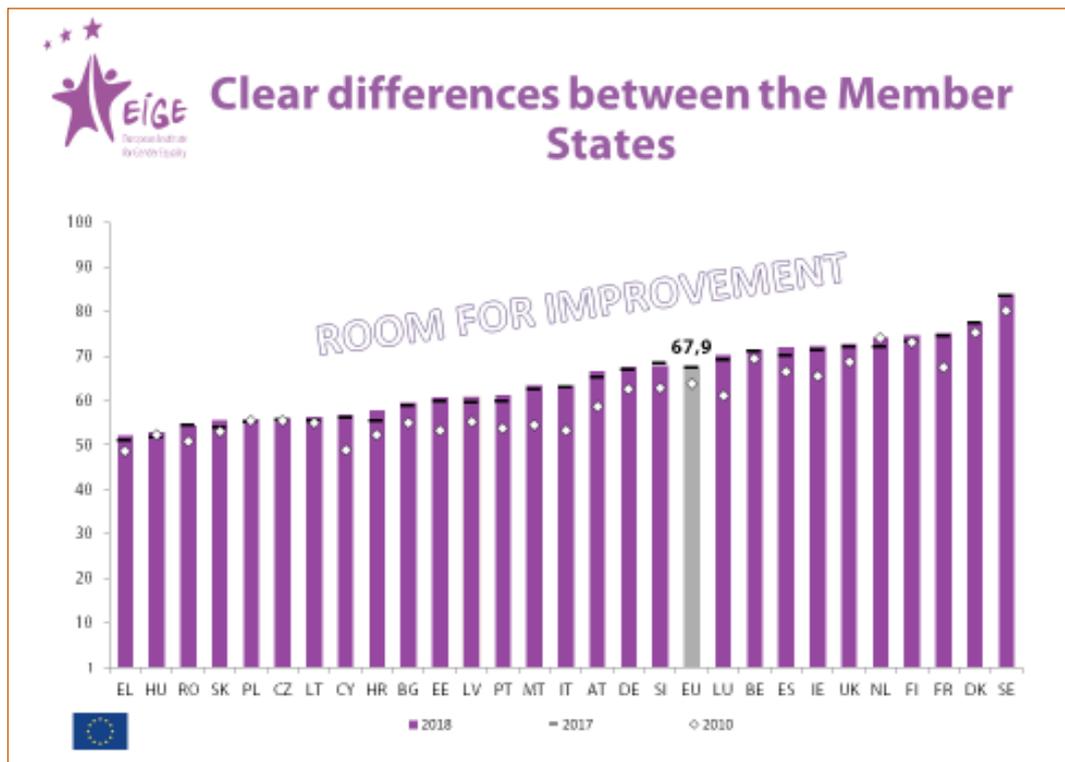


Source: EIGE

Davide Barbieri

Each year, the Gender Equality Index scores the EU and Member States from 1 to 100 (see **Figure 1**). A score of 100 would mean that a country had reached full equality between women and men. As always, there are clear differences between the Member States. Sweden, Denmark and France keep the three top spots, same as in 2019. The awards for 'most improved' go to Italy, Luxembourg and Malta, with each gaining around 10 points since 2010. Greece, Hungary and Romania have the biggest room for improvement.

Figure 1 – EIGE 2020 Gender Equality Index scores



Source: EIGE

The role of policymakers

Policymakers have an important responsibility to promote gender equality. From the presentations and discussions, it became evident that there is a clear business case to do so: economies in which women can participate equally are more resilient, richer and perform better. More importantly, however, speakers underlined there is also a moral obligation to support women. In the wake of the 2008 financial crisis, it became clear what happened when policymakers ignored gender as a critical element in policymaking: austerity fell particularly heavily on women. They tend to be poorer and rely more on public services, including childcare. Policies developed to stem the negative effects of the crisis ended up having a serious impact on equality between women and men.

Taking into account gender when deciding and implementing the EU budget is crucial for bringing EU citizens closer to gender equality. The ECA has recently conducted an audit to examine whether the European Commission incorporated a gender perspective when preparing, designing, implementing, monitoring and evaluating EU policies and activities. The auditors visited the EIGE as part of the audit task. The audit report is due to come out in the first quarter of 2021. In particular, it will assess whether the Commission has an appropriate framework to promote gender equality, whether the annual and multiannual EU budgets include elements related to gender, and whether the Commission is able to demonstrate the results achieved via the main EU funding programmes in the area of gender equality.

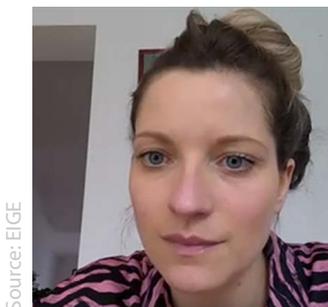
ECA collaboration to promote equal opportunities

The ECA's new Diversity and Inclusion Officer, Olga Ioannidou, acted as the host at the conference. Following Davide Barbieri's presentation, she invited representatives of the Joint Committee on Equal Opportunities (COPEC) to run a short quiz on the index. A lively discussion ensued with the participants.

Besides cooperating with COPEC, Olga Ioannidou also engages with a group of committed ECA staff - the so-called 'Equality Team' - to run projects and activities together with the aim of promoting diversity and inclusion. The ECA Equality Team works on a voluntary basis and any ECA staff member can join.

EIGE handbook to tackle sexism at work

Finally, yet importantly, Veronica Collins of the EIGE gave a presentation on the handbook *Sexism at work: how can we stop it?* With this handbook, the EIGE intends to help organisations understand the nature of sexism in work contexts and to offer tools for leaders, managers and staff to tackle it. There is an emphasis on informal mechanisms to foster cultural change. The book helps readers identify what sexism is, where it comes from and how, ultimately, it hurts both genders.



Source: EIGE

Veronica Collins

Since the handbook is also addressed to EU institutions and agencies, it has a special relevance for the ECA. As part of the ECA's efforts to guarantee staff dignity at work, we issued a communication to all staff to encourage them to read it. Later in 2021, we plan to organise a second webinar with the EIGE to present the handbook in more detail. In the meantime, we have an ongoing project to raise awareness on gender-sensitive communication. We also plan to use the resources from the book to launch a campaign against sexism in-house.

All in all, the conference has helped to build closer links between the EIGE and the ECA. Our next (2021-2025) policy and action plan on diversity and inclusion will include input from the EIGE. We will follow the EIGE's recommendations when we design projects and activities for the future. The EIGE has made useful resources available. We will also take advantage of these resources to enhance our training activities related to gender equality.



Source: EIGE

Cover of the EIGE Handbook on Sexism at work





Reaching out

Celebrating Women's Day on 8 March 2021 at the ECA – Women in leadership

By Olga Ioannidou, Human Resources Directorate



From left to right the three female directors at the ECA:
Magdalena Cordero, Ioanna Metaxopoulou and Pilar Calvo Fuentes

On 8 March, the world celebrates International Women's Day, and for several years now we have celebrated the day at the ECA. This year the ECA's Joint Committee on Equal Opportunities highlighted a number of exceptional women, who have been an inspiration and challenged preconceptions in their field of work in a particular way. Another action has been to focus on ECA women in leadership, in line with the theme announced by the UN. Below an introduction by Olga Ioannidou, Diversity and Inclusion officer and HR Communication officer, who organised this activity, and three testimonies by the three female directors the ECA currently has.

Focus on women leaders all over the world

This year, the ECA has chosen to celebrate International Women's Day with its three women directors. The 2021 theme announced by the United Nations, *Women in leadership: Achieving an equal future in a COVID-19 world*, celebrates the tremendous efforts by women and girls around the world to shape a more equal future and recovery from the COVID-19 pandemic. Women leaders all over the world have demonstrated their skills and knowledge in effectively leading the COVID-19 response and recovery efforts.

Magdalena Cordero, Director of the Information, Workplace and Innovation Directorate, Ioanna Metaxopoulou, Director in Chamber IV, Regulation of markets and competitive economy, and Pilar Calvo Fuentes, Director of Translation, Language Services and Publication, have shared with us their own experiences, challenges and feelings during this period.

Where does their strength come from? How did they react as ECA leaders when faced with the crisis? What lessons have they learned? We are proud of the ECA's women leaders, and invite you to read their powerful and inspiring testimonies to help you make every day a women's day.



MAGDALENA CORDERO, Director of the Information, Workplace and Innovation Directorate

I grew up in a small village in Asturias. My mother, who never left our village, told me repeatedly, 'You are very brave,' thus encouraging me to accept all of life's challenges.

Over time I learned that leaders always trust people, that they are ambitious and take risks, that they are conscious that life is a continuous learning experience, and aware that leading consists of listening to and observing others and fostering their talent and courage with generosity.

Facing COVID-19 as an IT manager, I had to react quickly, without panic. It was an enormous responsibility, a great challenge. But also the opportunity to give visibility to years of effort, to make a vision come true. And above all, it was the time to trust my team as the key factor to success, and to count on my family, my son and my husband, as my personal support structure.

My co-workers tell me that I am very energetic. It may be true, but I know that all my strength comes from the people around me. That is why I will always defend the human and social dimension of work.

I am the way I am because my mother always had confidence in me and encouraged me to progress. That is now called *empowerment*! Happy Women's Day!



IOANNA METAXOPOULOU, Director, Regulation of markets and competitive economy Directorate

I've always liked to challenge myself, step outside my comfort zone, try to learn and improve. COVID-19 has undeniably been the biggest challenge of all... fundamentally changing what I took for granted. From one day to the next, our 'organised' traditional routine disappeared into thin air! A new reality of homeschooling while working; preparing lunches while working; policing screen time while working (I have totally failed on that one) and all the stress, guilt and tiredness that came with it. But with every challenge come opportunities! And we

should focus on this and the opportunity we are given to get stronger, demolish old stereotypes and create a better status quo.

We have been privileged to have an employer that cares and puts safety first. We are privileged in these difficult circumstances to retain our jobs and have the resources to keep going and deliver results, innovate.

At a more personal level, I was privileged to have the opportunity to spend more time around my kids...and regardless of all the hassle, it is worth it. As a person that loves to dream and make plans, I learned to appreciate the present more and enjoy every moment. In times like this it is important to remind ourselves of the importance of trust! Trust in people.

Today is the celebration of International Women's Day. As a small gesture, I would like to thank all my colleagues for the trust, strength, resilience and commitment they have shown during this past year. I hope that soon we can all meet in person again.

One of the messages for this year's International Women's Day is challenge. From challenge comes change, so let's all *choose to challenge*!



PILAR CALVO FUENTES, Director of Translation, Language Services and Publication

Starting work as a new director was always going to be a challenge, and taking up the post in a remote environment even more so. One thing that was clear to me was that I didn't want to be perceived as a remote director. Reaching a staff of around 150 people and engaging with them on a personal level has been a challenge requiring proactivity and investment, but it was definitely worth it!

Investing in trust – through communication and transparency – is one of my priorities and is an ongoing task. I think in this crisis we have all become more empathetic and more aware of how lucky we are to work in a safe and professional environment such as the ECA. I am very grateful and aware of the opportunities I have had to develop my career, and therefore I also feel a responsibility to do my best and help others to grow.

At the same time, as a mother of three boys, I - like many of us - will always remember some crazy days from this period when I had to juggle meetings, cooking, homeschooling... fortunately all my men at home support me greatly and this fuels my energy, as does contact with my co-workers and the firm belief that life is a joy and should be lived with commitment.

A word of advice for all women: *don't be afraid to take risks and trust in your abilities!*



Reaching out

ECA-OECD webinar on good budgetary governance

By François-Roger Cazala, ECA Member



François-Roger Cazala, ECA member, and Andrew Blazey of the OECD

On 22 March 2021, ECA Member François-Roger Cazala chaired a webinar on good budgetary governance, organised in the context of the ECA's future work on the 'EU's budget galaxy'. The event was held in cooperation with the OECD, and featured Andrew Blazey, Deputy Head of the OECD's Public Management and Budgeting Division, as

a speaker. Over 135 ECA staff members attended the webinar and the topics discussed proved to be highly relevant in the context of the COVID-19 crisis and new initiatives such as 'Next Generation EU' (NGEU), budget transparency, climate or gender budgeting, Sustainable Development Goals, and fiscal sustainability. Below you can read an account by the chair, François-Roger Cazala, of the main issues that were discussed during this webinar.

The EU's budget galaxy as context

On 22 March 2021, I moderated – with pleasure and interest – a webinar on good budgetary governance. We organised the webinar together with the OECD in the context of the upcoming 'budget galaxy' audit task. The topics presented and discussed were also highly relevant to many of our audits, and in particular in the current context of the COVID-19 crisis and new initiatives such as the 'Next Generation EU' (NGEU).

In his presentation, Andrew Blazey, deputy head of the Public Management and Budgeting Division of the OECD Public Governance Directorate, focused on three points: the principles of budgetary governance, budget transparency, and budgetary responses to COVID-19.

Principles of budgetary governance

Budgetary governance covers the drafting phase of the annual budget, the oversight of its implementation and its alignment with public goals. The OECD has defined the following 10 principles that represent good practice and provide practical guidance in this context:

- *budgeting within fiscal objectives*: the most commonly used fiscal objective is a balanced budget, followed by making debt. The latter is used to cover off-budget activities to generate cash. In practice, most countries apply a combination of objectives;
- *alignment with medium-term plans and priorities*: this requires complex budgetary planning with close coordination across governmental departments. Priorities subject to such planning are, for example, Sustainable Development Goals, climate or well-being, i.e. topics which need medium-term planning to have an effect;
- *performance, evaluation and value for money*: spending reviews are widely applied by OECD countries. Such reviews examine the effectiveness and efficiency of public expenditure. Their connection with budget decisions remains, however, a challenging issue;
- *quality and integrity and independent audit*: one important aspect which recently received more attention is the role of independent fiscal institutions. These are relatively new and provide independent oversight on the performance of the budget

and fiscal policies. They provide support to national parliaments in reviewing/monitoring actual budget implementation. In the OECD countries where they are in place, they have played an important role in the context of COVID-19 (see below). The question could be raised of whether there is a need to establish such an institution at the level of the EU institutions;

- *transparency, openness and accessibility*: levels of transparency have increased recently with the expansion of public information and publications. Examples are long-term sustainability reports regarding fiscal policies;
- *participation, inclusive and realistic debate*: regarding inclusion, gender budgeting has enjoyed increasing interest amongst OECD countries. However, countries struggle to implement it and in particular to incorporate it into the decision making process;
- *fiscal risks and sustainability*: most OECD countries have a fiscal risk management framework or guidance but it is not always clear how the framework is used, for example, in decision making and how it is integrated in the budget;
- *capital budgeting framework*: current expenditure and capital expenditure should be considered together in the budgeting exercise and the full life cycle of capital must be taken into account;
- *comprehensive budget accounting*: important improvements were made with the introduction of accruals accounting over the last decades; the issue now is to optimise its use;
- *effective budget execution*: it relates to budget flexibility and the control environment in which a budget is implemented. For instance, reallocations and carryovers are commonly used across OECD countries.

These rather new principles complement traditional budget principles, such as annuality, unity and universality, but cannot be substituted for them, even if proper differentiation might sometimes prove difficult (e.g. annuality vs. budget flexibility).

Budget transparency

Budget transparency covers several aspects. It is linked to the time available to the parliament for debate and discussion of the budget proposed before it is approved. Good practice is to reserve three months for it. Although the adoption of the budget is important, the time given to its follow-up, monitoring and evaluation is equally important.

Transparency is also related to the clarity of the information given. In a number of countries, citizens' budgets are seen as a meaningful tool: they present the budget in a separate document with headline messages, minimise jargon and connect budget initiatives to the government's policy priorities. However, some countries prefer not to present a separate document but instead improve the accessibility, presentation and readability of the main budget document itself.

Monitoring and evaluation is a way to ensure that there is an effective retrospective look at the difference between what was planned and what was actually implemented. It is important that it is anchored in solid legislation and that it is part of a real evaluation culture throughout the administration, rather than being allocated to a separate institution.

Budgetary response to COVID-19

Following the exceptional budgetary response to COVID-19 in 2020, most OECD countries are projecting higher budget deficits in the coming years, as gross public debt has increased, on average by 20% of GDP. The increased public expenditure has moved from emergency response to supporting the recovery.

Four main measures were implemented across OECD countries in response to the COVID-19 crisis:

- direct spending such as additional expenditure, in particular in support of the health sector and for broader unemployment schemes;
- foregone revenue measures, principally through the reduction of tax rates such as a temporary reduction of VAT on certain products;
- deferred revenue measures, where the deadlines for tax payments were extended; and
- balance sheet measures, such as loans and guarantees to the financial sector, or equity injections for strategic sectors or companies such as, for example, airline companies.

Concerning the way in which this additional expenditure was adopted, a positive point is that supplementary budgets were used by most countries to implement these measures rather than creating something new. The question is whether this is also the case for the EU.

The main structural long-term impact will emerge from the balance sheet measures, as they are the biggest measure in terms of volume and as they will of course have implications for future budgets. The main risk related to these latter measures is the fact that the focus of governments was on effective delivery, on getting the money out of the door. There was much less attention to performance measures, and value for money analyses were not part of the discussions prior to adopting these measures. With a few exceptions, ex ante evaluations were not performed and even fewer countries undertook ex ante assessments of budgetary decisions on income inequality and poverty.

Performance issues are, however, important when adopting measures, even in a context of crisis. Let us take gender as an example: a contradiction can be seen between the sectors that are most affected by the crisis and those which, proportionally, have received more support. As an example, take the retail sector, where 62% of employees are female, and the construction sector, where most employees (92%) are men. Support for those sectors has a different impact on gender and underlines the importance of ex ante evaluations to make sure conditionality is applied. It is important to note that, now the initial stages of responding to COVID-19 have passed, the focus on value for money will increase.

It is useful to mention in this context, once again, the role of independent fiscal institutions. When the stimulus was first initiated, in many countries the role of the parliament had been suspended. Normal debate and scrutiny could therefore not take place. This highlighted the role of these fiscal institutions in helping to provide an assessment of the additional expenditure. However, these institutions do not exist in all countries and their role is only complementary to that of the parliament. This situation has implications from an audit point of view: with the absence of debate and fully-fledged ex ante scrutiny when the measures were adopted, the emphasis will be put on ex post assessments and audits.

Looking at the longer-term priorities that governments have set for themselves, it is noticeable that, for example, long-term climate objectives were embedded in the additional COVID-19 expenditure, in particular in the case where previous budgets already contained these (e.g. green budgeting). However, it is challenging to identify expenditure allocated to such objectives, and its relative part in the budget appears to decrease as more data become available on expenditure which has a real impact.

Compared with the financial crisis in 2008, the COVID-19 crisis has given climate change a central place in the additional and new policy measures. In addition, spending reviews are becoming more important and focusing on the effectiveness of government policies and their implementation.

It was good and appropriate to benefit from the expertise, the broader views and above all the timeliness of this ECA-OECD webinar. Participants regarded the continuation of these exchanges as a useful and necessary contribution to our core auditing business, in particular in the area of budget implementation.



Special report N° 26/2020

Published on 26/11/2020



EU protection of marine environment is shallow

EU action has not led to the recovery of significant marine ecosystems and habitats, according to a new special report published today by the European Court of Auditors (ECA). Its framework to protect the marine environment is not deep enough to restore seas to good environmental condition, while EU funds rarely support the conservation of marine species and habitats. The auditors found that marine protected areas (MPAs) provide limited real protection, while overfishing persists, particularly in the Mediterranean.

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SRB Contingent liabilities 2019

Published on 30/11/2020



EU bank resolution: 2019 risk disclosures are appropriate, but EU auditors highlight potential future risks

The European Court of Auditors (ECA) has an obligation to report each year on any financial risk arising, in particular from legal proceedings, relating to the Single Resolution Mechanism (SRM), the EU system managing the orderly winding-up of failing banks within the Banking Union. For the 2019 financial year, the Single Resolution Board (SRB) reported contingent liabilities relating to ongoing legal challenges. However, the auditors draw attention to the possible financial implications of certain subsequent legal judgments, as well as some arising from new judicial challenges.

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Audit preview

Published on 03/12/2020



Auditors examining intellectual property protection in the EU

Intellectual property is vital to the EU's economy. Making sure that it is well protected within the single market is thus a key element of the Union's competitiveness. With this in mind, the European Court of Auditors is starting an audit to assess the effectiveness of the EU's intellectual property protection system.

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ECA publications in December 2020

Audit preview

Published on 08/12/2020



EU auditors scrutinise 5G security in Europe

The European Court of Auditors (ECA) has launched an audit to assess whether the EU and its Member States are implementing secure 5G networks in a timely and concerted manner. The audit follows on from the ECA's recent review of the EU's response to China's state-driven investment strategy, which flagged 5G security as an issue of concern. The auditors will examine the EU's 5G set-up, the European Commission's support for the Member States, and the latter's 5G roll-out and consideration of security concerns. They will focus on network security, encompassing cybersecurity and hardware.

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Review N° 06/2020

Published on 09/12/2020



COVID-19 crisis risks widening the economic gap between EU countries

The recently amended proposal relating to the Just Transition Fund (JTF) needs to establish a clearer link to the EU's climate and environmental goals, according to an Opinion published today by the European Court of Auditors. While significant additional resources are put forward to help achieve the transition to a climate-neutral economy by 2050, the funding should be more need-based and performance-oriented. Otherwise, there is a risk that the necessary structural change will not take place and the transition towards a green economy will need to be financed again, the auditors warn.

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Opinion N° 11/2020

Published on 11/12/2020



EU auditors welcome proposal to simplify calculation of EU financing system's VAT element

As legislative negotiations on the new system of EU financing continue, the Council of the EU is proposing to simplify the calculation of Member States' value added tax (VAT)-based contributions to the EU budget. According to the auditors, the proposal significantly simplifies the current calculation process. However, they suggest considering the introduction of a review mechanism to ensure more accuracy in cases where, for instance, VAT policies in Member States change significantly.

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Contact Committee report

Published on 16/12/2020



Contact Committee report on the “Preparation for resolution of medium-sized and small banks in the euro area”

The EU Contact Committee has published a report on the “Preparation for resolution of medium-sized and small banks in the euro area”. The report was prepared by the Contact Committee Task Force on Banking Union and is based on the findings of a parallel audit on banking resolution carried out by the SAIs of Austria, Estonia, Finland, Germany, the Netherlands, Portugal and Spain in their respective Member States. The task force was co-chaired by the SAIs of Germany and the Netherlands.

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Audit compendium

Published on 17/12/2020



European Audit Institutions pool their work on cybersecurity

As the threat level for cybercrime and cyberattacks has been rising over recent years, auditors across the European Union have been paying increasing attention to the resilience of critical information systems and digital infrastructures. The Audit Compendium on cybersecurity, published today by the Contact Committee of EU supreme audit institutions (SAIs), provides an overview of their relevant audit work in this field.

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Audit preview

Published on 05/01/2021



Auditors scrutinise EU support for rule of law in Western Balkans

The European Court of Auditors is currently assessing the effectiveness of EU measures to support the rule of law – a requirement for accession – in the Western Balkans. The audit is covering four candidate countries (Albania, North Macedonia, Montenegro and Serbia) and two potential candidate countries (Bosnia and Herzegovina and Kosovo).

[Click here for our report](#)

ECA publications in January 2021

Special report N°01/2021

Published on 14/01/2021



Planning for EU bank resolution still missing some key elements

The Single Resolution Mechanism (SRM) is the EU system for the orderly winding-up of failing banks within the Banking Union, to avoid costly bail-outs. Since its establishment in 2015, the SRM has progressed in preparing for bank resolution, according to a new European Court of Auditors (ECA) report. However, the auditors find that further steps are needed in certain crucial areas. The Single Resolution Board (SRB) should put in place all relevant policies shaping resolution actions, and address weaknesses in the quality, timeliness and consistency of its own resolution planning.

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Review N° 01/2021

Published on 18/01/2021



The EU's initial response to COVID-19: learning lessons to improve European cooperation in public health

The European Court of Auditors (ECA) has reviewed the EU's initial response to the COVID-19 crisis and draws attention to certain challenges faced by the EU in its support for Member States' public health actions. These include setting an appropriate framework for cross-border health threats, facilitating provision of appropriate supplies in a crisis and supporting the development of vaccines.

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Special report N° 02/2021

Published on 21/01/2021



EU humanitarian aid for education should be longer-term and reach more girls

In recent years, EU aid for education in emergencies and protracted crises has worked quite well through relevant assistance projects. But a special report published today by the European Court of Auditors (ECA) also identifies several shortcomings. Overall, EU support reaches more boys, even though it is girls who are more likely to be out of school in conflict regions. The efficiency of EU aid would also benefit from longer-term projects, improved cost analysis and greater sustainability of cash-for-education programmes.

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Special Report N° 03/2021

Published on 26/01/2021



Gaps in the exchange of tax data in the EU may encourage tax avoidance and evasion

There is still insufficient sharing of tax information between EU Member States to ensure fair and effective taxation throughout the Single Market, according to a new special report published today by the European Court of Auditors (ECA). The problems are not only with the EU's legislative framework, but also with its implementation and monitoring. In particular, the auditors found that, often, the information exchanged is of limited quality or underused.

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ECA's 2021-2025 strategy + work programme

Published on 28/01/2021



EU Auditors to focus on Covid-related action in 2021

One in four new audits by the European Court of Auditors (ECA) this year will deal with the EU's response to the COVID-19 pandemic and the Next Generation EU (NGEU) recovery package, the ECA announced in its audit plan for 2021, published today. Moreover, in the coming five years, the EU auditors will aim to contribute to a more resilient and sustainable European Union which upholds the values on which it is based. They will continue striving to provide citizens with strong audit assurance, improving the accountability and transparency of EU action and auditing its performance in the areas that matter most, according to the institution's new strategy for 2021-2025, also released today.

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Audit preview

Published on 02/02/2021



Auditors scrutinise EU action to tackle the innovation divide

The capacity of private and public actors to take up and develop state-of-the-art technology varies considerably among EU Member States. To tackle this innovation divide, the EU has focused increasingly on ensuring wider participation in its research and innovation (R&I) funding programmes, introducing specific measures to unlock the potential of low-innovation countries and promoting synergies with the European Structural and Investment Funds (ESIFs). The European Court of Auditors (ECA) is conducting an audit to assess the action taken by the European Commission to achieve this Horizon 2020 'widening' objective.

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ECA publications in February/March 2021

Review N° 02/2021

Published on 23/02/2021



Greater efforts needed to equip all Europeans with basic digital skills

In today's world, digital skills are increasingly important. However, within the EU, little progress has been made in recent years in improving basic digital competence among adult Europeans. The Commission has issued guidance and supported Member States, but there have been relatively few EU-funded projects focusing on basic digital literacy for adults. The European Court of Auditors (ECA) has reviewed what the EU has done to increase digital skills among adults, and what is planned for the 2021-2027 period.

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Audit preview

Published on 25/02/2021



EU auditors check on progress towards a single market for investment funds

The European Court of Auditors (ECA) has launched an audit to assess the EU's progress in creating a single market for investment funds. The auditors will examine whether the evolving set of rules is fit for purpose and whether the EU has promoted common supervisory practices among Member States and effectively mitigated risk to investors, markets and financial stability. In the audit preview published today, the auditors also point to potential sector vulnerabilities and risks to financial stability. For instance, in the context of the COVID-19 pandemic, in March 2020, large outflows across investment funds resulted in market turmoil.

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Opinion N° 1/2021

Published on 01/03/2021



EU auditors highlight risks of Brexit Adjustment Reserve

In an opinion published today, the European Court of Auditors (ECA) raises some concerns over the recent proposal for a Brexit Adjustment Reserve (BAR). This €5 billion fund is a solidarity tool which is intended to support those Member States, regions and sectors worst affected by the UK's withdrawal from the EU. According to the auditors, while the proposal provides flexibility for Member States, the design of the reserve creates a number of uncertainties and risks.

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Audit preview

Published on 03/03/2021



EU auditors probe the protection of air passenger rights during COVID-19 crisis

The European Court of Auditors (ECA) has launched an audit to assess whether the European Commission has been safeguarding effectively the rights of citizens who travelled by plane or booked flights during the coronavirus crisis. The auditors will examine whether the current rules on air passenger rights are fit for purpose and resilient enough to deal with such a crisis. They will check whether the Commission monitored that air passengers' rights were respected during the pandemic and took action accordingly. In addition, they will assess whether Member States took passenger rights into account when granting emergency state aid to the travel and transport industry.

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Special Report N° 04/2021

Published on 30/03/2021



Differing approaches to customs controls affect EU revenue

Customs controls are still insufficiently harmonised across Member States to properly safeguard the EU's financial interests, according to a new report by the European Court of Auditors (ECA). Despite recent steps in the right direction, the EU rules are not designed well enough to ensure that Member States select imports for control in a uniform way. In fact, they apply the rules very differently, which could allow operators to target EU points of entry with lesser controls. The auditors also warn that some Member States do not conduct the required risk analysis on all declarations, and that imports posing a higher risk may not be properly prioritised for control.

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Special Report N° 05/2021

Published on 13/04/2021



EU must accelerate the deployment of charging infrastructure to promote breakthrough in electro-mobility

The EU is still a long way from reaching its Green Deal target of 1 million charging points by 2025, and it lacks an overall strategic roadmap for electro-mobility, according to a new report by the European Court of Auditors (ECA). Despite successes such as in promoting a common EU plug standard for charging electric vehicles, and improving access to different charging networks, there are still obstacles to travel across the EU in electric vehicles. The auditors found that the availability of public charging stations varies substantially between countries, that payment systems are not harmonised, and that there is a lack of real-time information available to users.

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Special Report N° 07/2021

Published on 21/04/2021



Use of EU space services needs an extra boost

The European Union has not done enough to harness the full potential of its space programmes, according to a special report published today by the European Court of Auditors (ECA). While the satellite-based programmes Galileo and Copernicus in particular provide valuable services and data, more efforts are needed to capitalise on the significant investment made (around €18 billion so far) and to optimise the benefits they bring to citizens and the economy. The auditors call for a comprehensive strategy, more targeted actions and better use of the regulatory framework for efficiently supporting the uptake of services.

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Special Report N° 06/2021

Published on 29/04/2021



Financial instruments in EU cohesion policy: checks at closure showing results

More than 1 000 financial instruments were used across the Member States for the 2007-2013 EU cohesion policy. A new special report published today by the European Court of Auditors (ECA) shows that the necessary steps have been taken to verify the eligibility of expenditure at closure. Checks have yielded tangible results, although some errors – one large – remained undetected. But overall, the auditors note that most problems encountered in the 2007-2013 period have been cleared up.

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NEXT EDITION

A new European Common Agricultural Policy – a platform to sustain many other policy objectives



It is not ordinarily front-page news when EU policies are updated. The Common Agricultural Policy (CAP), however, may be an exception to this rule. Not only because farming is one of the policies which has been Europeanised first, but also because financing the CAP accounts for nearly 40 % of the EU budget. The impact of agriculture is considerable. Agriculture provides jobs for around 12 million farmers and another 44 million jobs in the food production chain. Over the past 60 years, the EU has provided a common, unified policy on agriculture that aims to ensure affordable, safe food for EU citizens, a fair standard of living for farmers, as well as to preserve natural resources and respect the environment. Moreover, the CAP has proven to be an essential element in the realisation of the EU's internal market.

Auditing the CAP has always been one of the main tasks at the ECA, also in view of its financial importance. With the European Green Deal with the Commission's 'Farm to Fork' strategy, the CAP has moved even more into the spotlight.

The European Commission's proposals for the future of the CAP aim to make the EU's agricultural policy more responsive to current and future challenges, in particular related to climate change and sustainability, while continuing to support the active needs of European farmers. The proposals are currently being discussed by the European Parliament and the Council of the EU, and the provisional start date of the proposed CAP reform is 1 January 2023, until when the EU should address the climate and environmental challenges set out in the Green Deal, ensure robust governance of the future CAP and shore up its performance framework. For these new proposals, agreement is foreseen to be achieved before the summer of 2021.

Against this background, we have decided that the next ECA Journal will look into the key proposals made for the new CAP and the significant impact of this policy on the EU citizens' nutrition and well-being, Europe's flora and fauna, the climate, and our export businesses. We will look back at some key findings and challenges that auditing the CAP has posed to the ECA and other public auditors in the past. Other key questions are: what appear to be the main difficulties for agreement, to what extent do proposals reconcile with objectives set, including some non-agricultural ones? How 'auditable' are the new proposals and which are possible future innovations that support accountability arrangements in the area of agricultural policy?

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COVER:

Labyrinth

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