

# THE COURT'S WORK PROGRAMME FOR 2004

## *Introduction*

The audit tasks that the Court has adopted for its 2004 work programme are presented below by financial perspective field. It should be noted that the Court will conduct various preliminary studies and will decide whether to implement each audit as such once the results of those studies are known.

There is a short description of each task and, where possible, an indication of the amount involved.

In addition to the tasks listed, it should be noted that significant resources are allocated in each field to **DAS** work (specific appraisals), the examination of budgetary management and the follow-up to previous observations.

As in 2002, the legality/regularity part of the DAS will be based on four sources and supported by the specific appraisals for the various chapters of the financial perspectives. For each specific appraisal, the four sources are:

- an evaluation of the operation of the supervisory systems;
- an examination of the declarations by the Directors-General;
- the work of other auditors;
- substantive tests on underlying transactions.

As regards the reliability of the accounts, the Court will continue to pay close attention to the modernisation of the **accounting system**, which began in 2003 after the entry into force of the new Financial Regulation. The Court has also decided to give priority to an **audit of the effectiveness and efficiency of OLAF**.

## *Own resources*

- **Electronic clearance systems - risk analysis and built-in controls:** The objective of the audit is to verify whether the computerised customs declaration and accounting systems used by the Member States customs services have appropriate built-in controls and safeguarding procedures needed to ensure the assessment and collection of customs duties with a reasonable degree of security and completeness and whether the built-in customs controls are based on a proper risk analysis.
- **Calculation of the Weighted Average Rate (WAR) used in the VAT statement:** Audit of the WAR entered in the national VAT statements by Member States in application of Council Regulation No 1553/89 on the collection of VAT own resources and Council Directive 77/388 on the harmonisation of VAT systems in Member States.

The WAR constitutes an important element of the VAT statement and thus the calculation of VAT-related own resources.

- **The Commission's controls on ESA 95 inventories provided by Member States:** Examination of the Commission's controls and checks on inventories in which each Member State lays down the specific methods to calculate the Gross National Income (GNI) figures based on the European system of accounts (ESA95). These inventories should provide the basis for the correct calculation of the annual GNI aggregates from which GNI-related own resources are derived.

### ***Common Agricultural Policy***

- **Clearance of accounts:** This is an annual task involving the evaluation of the basis for DG Agriculture's financial and conformity decisions relating to agricultural expenditure taken within the clearance of accounts procedure.
- **Audit of the clearance of accounts procedure - follow-up to Special Report No 11/2000:** This procedure will be evaluated, insofar as it results in financial decisions, on the basis of the work of the paying agencies' certifying bodies and, insofar as it leads to conformity decisions, on the basis of the work of DG Agriculture. Assurance will also be sought that the procedure can guarantee satisfactory protection for the Community's financial interests.

This procedure covers all annual declarations of agricultural expenditure, which in 2002 totalled 42 600 million euro. The value of corrections resulting from the conformity decisions taken in 2003 was 376,9 million euro.

- **Evaluation of the application of Regulation No 4045/89:** Council Regulation (EEC) No 4045/89 requires Member States to carry out a minimum number of post-payment scrutinies in relation to payments for specific budget lines. (Basically all EAGGF subsidies that are not paid to farmers directly.) Some 3 800 scrutinies (or audits) were performed in the 15 Member States in 2003, the main areas examined being export refunds and intervention measures.

This audit, to be carried out as part of the DAS work for 2003, seeks to evaluate the application of the regulation in the Member States, and also the role of the Commission in monitoring and managing the work done in relation to R4045/89.

- **Evaluation of physical controls of agricultural products attracting export refunds:** Member States' customs services are required to inspect a fixed percentage of export consignments to check *inter alia* the description, quantity, origin and quality of products attracting export refunds. Member States are required to report to the Commission annually on the performance of these checks. The audit will examine the Commission's evaluation of the reports for the 2003 EAGGF year and its conclusion on the reliance it can place on these checks.

- **The common organisation of the market (CMO) in wine:** The aim of this audit is to examine the extent to which the Commission ensures that the global objectives of the CMO have been achieved and to obtain assurance that the Commission's management of the CMO is sound. The current audit focuses on production potential and the measures related to this (restructuring and reconversion of vineyards, permanent abandonment premiums).
- **Production aid for seeds:** The global objective of this audit is to assess whether the Commission's management of the CMO in seeds has been sound, particularly in terms of economy and cost-effectiveness. In addition, the audit will assess:
  - the effectiveness of the interdepartmental coordination between DG AGRI and DG Health and Consumer Protection (SANCO) and their compliance with the respective agricultural and health-specific objectives;
  - the soundness of the Commission's proposal for the inclusion of the seeds scheme in the direct support scheme under Council Regulation (EC) No 1782/2003, but with the option for Member States to continue granting production aid for seeds under certain conditions.
- **Agri-environmental measure:** This measure is the largest of the rural development measures. In 2003 Member States declared over 2 000 million euro as expenditure to be financed by EAGGF Guarantee for this measure. A large number of sub-measures are included in the rural development plans. These measures promote agricultural production methods which protect the environment and maintain the countryside. The audit will focus on how the Commission ensured the controllability of sub-measures and the effectiveness of the checks carried out in practice.
- **Quality of the on-the-spot inspections carried out under IACS:** These inspections are a key element of the system and an essential tool for checking the validity of farmers' aid applications. The audit will focus on the reliability of the inspections, reporting and statistics, with the aim of using the national authorities' on-the-spot inspection results for the DAS. Quality control is dependent on constant monitoring to ensure that inspection standards are maintained.
- **The common organisation of the market in the milk and milk products sector - disposal measures:** The disposal measures comprise aid for skimmed milk used in animal feed (220 million euro) and the production of casein and caseinates, for the supply of milk and certain milk products to pupils in educational establishments (80 million euro) for butterfat (450 million euro - nearly 80 % of which concerns pastry butter) and for the private storage of cheese (50 million euro).
- **The common organisation of the market in the protein plants sector:** Protein plants (peas, beans, field beans and sweet lupins) come under the heading of arable crops (2,7 % of total area) and are eligible for area aid. They qualify for aid at a level that was reduced under Agenda 2000 but

remains 15 % higher than for cereals and oilseeds. The annual cost is around 50 million euro.

- **Beef slaughter premium:** The scheme was introduced by the Agenda 2000 reform. The premium is paid in respect of slaughtered or exported bovine animals. The first year of operation was 2000. EU expenditure started in 2001 (494 million euro). Actual expenditure rose to 1 025 million euro in 2002, and is budgeted at 1 710 million euro for 2003. The increase is due to the fact that the premiums only start to be paid at their full rate in the third year of operation.
- **Aid for the cessation of fishing activity:** The fishing agreement between the European Union and Morocco expired in November 1999. Specific measures were thus introduced to promote the conversion of fishing vessels and fishermen affected by the non-renewal of the agreement. The corresponding aid, which was initially funded by the FIG, is now covered by a specific instrument (Regulation (EC) No 2561/2001). The audit will focus on evaluating the controllability and effectiveness of this aid scheme. The payment appropriations assigned to this measure for the financial years 2002 and 2003 amounted to 39 and 89 million euro respectively.

### ***Structural measures***

#### Structural policies

- **Ex-post evaluation of Structural Fund interventions 1994-1999:** Examination to establish whether the Commission has been able to use the ex-post evaluations finalised in 2003 to assess the impact of the 1994-1999 interventions in relation to their objectives and whether the results are of use for the revision of 2000-2006 programmes and post-2006 programming. The audit will include an examination of the quality of guidance issued by the Commission and an assessment to establish whether the evaluations meet generally accepted standards and are coherent and complete, whether appropriate methodologies were used and whether the results were given in time to inform the mid-term review of 2000-2006 programmes and post-2006 programming. Structural measure interventions for the period 1994-1999 amount to 166 064 million euro.
- **Mid-term evaluation, reprogramming and allocation of performance reserve for structural measure interventions 2000-2006:** Examination of the quality of the mid-term evaluation of structural measure interventions for the period 2000-2006 and of the re-programming procedure and the allocation of the performance reserve. It will examine the quality of guidance issued by the Commission and the robustness of the evaluations and whether the results were useful for re-programming and the allocation of the performance

reserve. Structural measure interventions for the period 2000-2006 amount to 230 032 million euro.

#### Regional and cohesion policies

- **Structural Funds for new Member States:** The new Member States due to join the EU in May 2004 have submitted regional programming documents to the Commission for the period 2004-2006. A total of 22 000 million euro has been earmarked for the new Member States from the Structural and Cohesion Funds. The Commission is responsible for negotiating and approving these documents. The audit will examine the programming procedures, the programming results and the first implementation phase.
- **Major projects:** The Structural Funds may provide assistance for major projects, being those for which the total cost on which the Community contribution is based exceeds 25 million euro for infrastructure investments, 15 million euro for productive investments (1994-1999 period) or 50 million euro (2000-2006 period). The audit will examine compliance with the specific rules on major projects and whether the expenditure has been managed in accordance with the principles of sound financial management.
- **Outlying and insular regions:** The outermost regions and territories of the European Union are confronted with a number of specific challenges generated for the most part by their geographical isolation and remoteness from continental Europe. These special circumstances were recognised in the Treaty (Article 299(2) of the Treaty of Amsterdam for the outermost regions and Declaration 30 to the Treaty for the island regions) and through significant financing from the Structural Funds.

During the first two Structural Fund periods (1989-1993 and 1994-1999), the seven outermost regions received total financing of 7 200 million euro. In the new programming period 2000-2006, 6 800 million euro have been allocated to these regions (of which 4 400 million euro from ERDF). The audit will cover the outermost regions and the outlying Greek islands which benefit from measures of a similar nature. It will examine sound financial management and financial audit issues covering the whole spectrum from strategy-setting down to project implementation and evaluation, addressing key problems of regional planning identified in recently published Commission-financed studies.

#### Employment and social policies

- **Early school-leavers:** This sound financial management audit examines the effectiveness of ESF co-financed measures addressing the problem of early school leavers (ESL) (i.e. persons who fail to complete or are at risk of not completing lower secondary level education). This policy area, which is a key element of the European Employment Strategy's priority for developing

lifelong learning, was adopted as a priority under the Lisbon summit of 2000, whereby Member States were requested to halve their rate of early school leaving by the year 2010. The audit focuses on school-based preventive measures which aim to assist young people in completing secondary level education. The full extent of ESF financing in this area cannot be established until audits have been carried out. However, figures are readily available in respect of Ireland (728 million euro) and the Netherlands (280 million euro). Audits are being carried out in France, Ireland, Italy, Netherlands, Portugal, and the United Kingdom.

- **EQUAL Community Initiative (CI):** The aim of EQUAL is to promote new means of combating all forms of discrimination and inequalities in connection with the labour market, through transnational cooperation. EQUAL will also take due account of the social and vocational integration of asylum seekers. The audit will examine the extent to which the management of the initiative respects the principles of sound financial management. For the period 2000-2006 this CI is funded up to an amount of 2 973 million euro.

### ***Internal policies and research***

- **TEN-Transport:** The Trans-European Network for Transport (TEN-T) management system is, in terms of value, the most important non-research management system in the internal policies field. Article 18 of Regulation No 2236/95 provides for a total financial framework of 4 600 million euro for the period 2000-2006 for all sectors of the trans-European networks. Of this amount, the Commission has allocated 4 170 million euro to the TEN-T.  
The audit will evaluate the management system put in place by the Commission and by the Member States for the administration of the TEN-T programme, covering the period 2001-2003.
- **Justice and home affairs:** DG Justice and Home Affairs (JHA) was created in October 1999 and is in charge of expenditure related to the area of freedom, security and justice, with payment appropriations for 2003 of 129,4 million euro, and to cooperation with third countries on migration, with payment appropriations in 2003 of 14,6 million euro. Although the operational budget is relatively small, the nature of the contracts makes it a high-risk area.  
The audit objective is to evaluate the management system put in place by the Commission and by the Member States for the administration of the area of freedom, security and justice covering the period 2000-2003.
- **6th Framework Programme:** This programme for research, technological development and demonstration activities (FP6) was adopted on 27 June 2002. With a budget of 17 500 million euro, it covers the period 2002-2006.  
The audit will be a cross-DG integrated audit of the Commission's management of the Framework Programme and its thematic and horizontal programmes as operated by the four Research DGs: DG Research (RTD),

DG Information Society (INFSO), DG Energy & Transport (TREN) and DG Fisheries (FISH).

- **GALILEO Joint Undertaking:** The GALILEO Joint Undertaking (GJU) was set up for a period of four years through 2005 to ensure the management of the development phase of the European Satellite Navigation Programme and prepare for the management of the deployment and operational phases of the programme.

The European Court of Auditors is obliged, under Council Regulation (EC) No 876/2002 of 21 May 2002, to audit the GJU. The audit work will result in an annual audit report, which will include an audit opinion on the legality and regularity of the underlying transactions and reliability of the accounts. The first financial year of the GJU ended in December 2003.

The budget envisaged for the GJU is 570 million euro.

### **External measures**

- **Economic development/private sector:** In general, the interventions focus on improving the economic potential of the beneficiary countries (industry, trade and services) by, *inter alia*, creating facilities (e.g. chambers of commerce) and supporting private undertakings. The audit will examine the efficiency and the effectiveness of the Commission's management of these interventions.
- **Devolution:** The Commission reform of its management of financing measures in the field of external action includes the systematic "deconcentration" of the budgetary implementation and management functions to its 78 Delegations in beneficiary countries. This audit, which will be covered by the different audit sectors involved in external action, will continue in 2004 and will deal with the procedures established at headquarters to monitor and support financial management and operational activities of the Delegations, and with the activities undertaken in this context at Delegation level.
- **Environmental intervention:** On the basis of a preliminary study to be completed, an audit is foreseen to examine the efficiency and effectiveness of the Commission's management of interventions in the field of the environment. In particular it will examine how and to what extent (including financial consequences) environmental aspects are included in mainstream programmes and projects in the beneficiary countries.
- **MEDA:** Annually some 800 million euro have been committed on average over the past five years. A preliminary study will be carried out of the policy underlying the MEDA programme and in particular its practical implementation. Given the main objectives of the MEDA programme, the audit focus may be similar to that of the economic development audit.

- **CARDS and TACIS programmes:** preliminary studies of the CARDS and TACIS programmes are still ongoing. These studies focus on identifying possible future sound financial management audits. At this stage it is therefore still premature to specify a particular audit. Audits of the effectiveness of both CARDS projects and TACIS projects have therefore been provisionally included in the 2004 work programme.

### ***Pre-accession aid***

The pre-accession aid to Turkey has been selected because of its relative financial importance (2003 appropriations: 149 million euro for commitments and 40 million euro for payments), because Turkey is a new beneficiary of pre-accession aid and no audits have yet taken place there.

Upon completion of a preliminary study it is likely that an audit of a particular subject related to the PHARE programme, the scope and nature of which is undergoing changes as a result of the accession of new Member States to the Union in 2004, will be started in 2004.

### ***Administrative expenditure***

#### Administrative expenditure of the EU institutions

- **Building expenditure:** Legality, regularity and sound financial management audit of the institutions' expenditure for acquiring and renting buildings. The total budgetary appropriations allocated to this expenditure amounted in 2003 to around 357 million euro.
- **Publications Office contracts:** Legality, regularity and sound financial management audit of the contracts for publishing and printing work concluded by the Publications Office. The amount involved is estimated at around 100 million euro per financial year.

#### Community agencies and other decentralised bodies

- **Agencies:** Recurrent audits and the drafting of reports concerning the Community agencies, other decentralised bodies and the European Schools.

### ***Financial instruments and banking instruments***

- **Multiannual programme managed by the European Investment Fund (EIF) for SMEs in the Member States:** Continuation of the sound financial management audit of the implementation of the multiannual programme for SMEs of the measures foreseen in Council Decision 2000/819/EC of 20 December 2000, including ongoing similar measures on the basis of the previous employment initiative - Council Decision 98/347/EC of 29 May 1998. Payment appropriations for 2003: 93,7 million euro.
- **DG ECFIN:** The adequacy of the information provided by the Commission to the budgetary authority, focusing on information necessary for the budgetary authority to carry out its tasks of approving and discharging the budgets.
- **European Central Bank (ECB):** Recurrent audit of the efficiency of the management of the ECB.
- **Treasury management by the Commission:** the audit work will start in 2004 with a preliminary study.

### ***European Development Fund (EDF)***

- **Deconcentration:** The Commission reform of its management of financing measures in the field of external action includes the systematic "deconcentration" of the budgetary implementation and management functions to its 78 Delegations in beneficiary countries. This audit, to be carried out by the various audit sectors that are concerned with external action, will continue in 2004. It will focus on the procedures established by central services to oversee the Delegations' financial management activities, and on the Delegations' other activities.
- **The reform of public finance:** The objective of the audit scheduled to begin in 2004 will be to ascertain whether the Commission has effectively managed direct budgetary aid to the ACP States and reacted appropriately where the countries concerned have made insufficient progress in the management of public finance.
- **Environment:** This task will begin with a preliminary enquiry designed to collect and appraise the information necessary to plan an audit that should get under way at the end of 2004. The main audit objective will be to examine how the Commission has acted to guarantee the consistency, effectiveness and proper inspection of the various environmental programmes and projects that are financed by the EDF.