

THE EUROPEAN COURT OF AUDITORS 2005 WORK PROGRAMME

Introduction

The audit tasks adopted by the Court under its 2005 work programme are set out below according to field of the financial perspective. It should also be noted that the Court will carry out various preliminary studies; it will be decided whether to carry out an actual audit once the results of these preliminary studies are known.

Each task is briefly described and the quantity of finance involved is stated wherever possible.

In addition to the tasks included, note that considerable resources are allocated to DAS work (specific assessments), examining budgetary management and following up previous observations in every field.

In the same way as for the financial year 2003, the legality/regularity part of the DAS will be derived from four sources and be based on specific assessments relating to the various chapters of the financial perspective. The four sources for each specific assessment are as follows:

- an evaluation of the operation of the control and monitoring systems;
- substantive testing of underlying transactions;
- examination of the declarations of the Directors-General;
- the work of other auditors.

Own Resources

- **Transit (NCTS):** The objective of the audit is to verify how the New Computerised Transit System (NCTS), now being operational, is working in the Member States and whether it ensures an efficient management of the

transit system. Special attention will be paid to the modified provisions relating to guarantees in order to ensure that they are properly applied. Furthermore, the discharge procedures, including the inquiry steps undertaken, will be examined. Finally, it will be analysed whether recovery has taken place within the time limits set in case of non-discharge of the procedure.

- **GNI Components:** The GNI Questionnaires are the main instrument by which the Member States' GNI data for own resource purposes is communicated to the Commission. The audit will focus on selected components of the GNI questionnaire to examine whether the underlying sources and methods described in the Inventories for the selected components have actually been used in an accurate and transparent way when producing the figures for the GNI Questionnaire. It will also examine the procedures applied by the Commission and the GNI Committee for verifying the correctness of the selected components.
- **Quality of GNI:** The quality of statistics is also relevant for GNI and the underlying National Accounts as laid down in Council regulation No°1287/2003. The review based audit envisages to assess the developments to ensure an adequate quality of GNI data and the extent to which measures to assure quality have been proposed and implemented by the Commission in cooperation with Member States.
- **Administrative cooperation:** such cooperation between Member States and the Commission constitutes an important element in ensuring the correct application of VAT legislation and in the combat of VAT fraud in the EU. The objective of the audit is:
 - to produce an updated description of the state of play of administrative cooperation in respect of the legal situation
 - to review the performance of the Fiscalis 2003-2007 programme in relation to administrative cooperation

- to review the operation of the VAT Information Exchange System (VIES)

Common Agricultural Policy

- **Clearance of accounts:** This is an annual task involving the evaluation of the basis for Commission's financial and conformity decisions relating to agricultural expenditure taken within the clearance of accounts procedure.
- **Penalties and sanctions:** When irregular claims for CAP subsidies are made legislation should provide for penalties and sanctions of a deterrent nature. The audit will seek to establish whether or not the Commission has provided for comprehensive penalties and sanctions; how it has attempted to ensure that they are set at levels which have the desired deterrent effect; and the extent to which penalties and sanctions have been applied by Member States and any financial penalties recovered and credited to the EU.
- **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, the main areas examined being export refunds and intervention measures.

This audit, to be carried out as part of the DAS work for 2004, seeks to evaluate the role of the Commission in monitoring the application of the regulation in the Member States.

- **Evaluation of physical controls of agricultural products attracting export refunds, Regulation No 386/90:** 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 2004 EAGGF year and its conclusions on the reliance it can place on these checks. It will also seek to evaluate the application of the regulation in Member States.

- **Accreditation of EAGGF paying agencies in the new Member States:** The objectives of the audit are to evaluate the work undertaken by DG Agri to monitor the establishment of the new paying agencies, to analyse and evaluate the accreditation procedures in the new Member States and to identify potential risks to the Fund due to deficiencies in the internal control system. The audit will also compare and assess the accreditation criteria applied by the respective Member States in order to ensure a common standard on the internal control systems of the new paying agencies.
- **Audit of the national ceilings fixed in the CAP reform:** National ceilings in Annex VIII of R 1782/03 (Art. 41) are those established for the single payment scheme, which will be applied from 2005. If the sum of the individual farmers reference amount under the single farm scheme exceeds the ceiling, the Member State shall proceed to a linear percentage reduction of the farmers reference amounts. The principal objectives of this audit will be to verify that the national ceilings are based on objective criteria, and are applied continuously and consistently; and whether the Commission and the Council had at their disposal all the necessary, reliable and updated information.
- **Audit on the production aid and intervention for dried grapes:** The expenditure of the CMO for dried grapes (115 Mio euro in 2004) comprise a hectare aid paid to producers, quality improvement and promotional measures, and a storage aid. Since the Court's last report on the subject (AR 1994), the CMO for dried grapes has not been reformed. The audit will seek to evaluate the overall effectiveness of the EU intervention in relation with the objectives of the CMO, to analyse the effectiveness of controls put in place to guarantee the correct management of contracts between producers and processors, to check that the aid is paid only in respect of production

which respects the regulatory requirements and that the minimum quality characteristics are met.

- **Aid for processed tomatoes, peaches, pears and citrus fruits:** The objective of the aid (640 Mio euro in 2004) is to assist producer organisations supplying tomatoes, peaches, pears and citrus fruits harvested in the EU for the production of specified processed products. Minimum characteristics of the raw material supplied for processing and minimum quality requirements for finished products are defined. Annual EU thresholds have been established to limit the total volume of aid. The objectives of this audit are to check to what extent the Commission has implemented the policy in a way to ensure that the expenditure is effective (i.e. that it contributes to the policy objectives), and to evaluate the control system put in place by the Member States to ensure that payments are done correctly.
- **Audit of the effectiveness of the producer organisations' operational programmes in the fruit and vegetable sector:** the EU encourages the formation of producer organisations as well as other forms of producer groups and associations and contributes to financing their setting up and initial running costs. In the case of Fruit and Vegetables they are the focal point for operational programmes (co - financed by their members and through EAGGF-Guarantee, 405 Mio euro in 2004) which have the objective of improving quality, increasing added value, improving production and marketing and helping achieve the achievement of sound environmental practices. Various EU regulations have been published governing the operation of such bodies. The overall objective of this audit is to gather comprehensive information about the population of such organisations and, by comparing and contrasting their organisational structure, activities, financing, accountability, to identify good and bad practices and to make recommendations for improvements.
- **Agri-environmental measure:** This measure is the largest of the rural development measures. In 2004 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 ensures the controllability of sub-measures and the effectiveness of the checks carried out in practice.

- **Audit of agricultural investments:** Agricultural investments cover around 40 % of rural development expenditure, i.e. 19 500 Mio euro for the period 2000-2006. The actions are characterised by a large variety of different actors managing the projects and a broad range of beneficiaries. It is envisaged to evaluate the control systems put in place both at the Commission level and the Member States level. Applications to benefit from the scheme have to be analysed on aspects like: competent design, consistency with objectives, based on sound feasibility studies, and appropriate eligibility criteria (firm long term commitments). A second issue to focus on is the added value of EU financing in particular for investments not directly related to agriculture (e.g. renovation and development of villages and protection and conservation of the rural heritage). Recent changes, such as the proposal for the RD Regulation 2007-2013; the condition under the CAP reform that investments must meet standards; and substantial amounts of EU money to be invested in rural development programmes for the new Member States will be taken into account.
- **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.

- **Reliability of IACS inspections in New Member States:** The correct application of the Integrated Administrative and Control System is crucial for evaluating the legality and regularity of payments made under the Single Area Aid Payment System in the new Member States. The audit will focus on establishing the existence of the different elements of IACS with a view of assessing whether they are operational.
- **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.
- **Milk quotas in New Member States:** The new Member States have to apply milk quotas, starting on the 1st May 2004. The first milk marketing year will end in March 2005. The final results of this marketing year will have to be communicated to the Commission by September 2005. The audit will cover the management of milk quotas at national and at dairy level and the correctness of super levy to be charged in case of overshoot of the national quota.

Structural measures

Structural policies

- ***Ex post evaluation of Structural Funds operations over the 1994-1999 period:*** this audit aims to examine whether the Commission was able to rely on the *ex post* evaluations completed in 2003 in order to assess the impact of the operations over the 1994-1999 period from the point of view of its objectives and the usefulness of the results with regard to revision of the 2000-2006 programmes and to post-2006 programming. The audit includes an examination of the quality of supervision by the Commission and of the extent to which the evaluations conform to generally accepted standards. The examination also assesses whether the methods applied were suitable and whether the evaluation results can be taken into account in the mid-term reviews of the 2000-2006 programmes and in the post-2006 programming. Over the 1994-1999 period, operations pertaining to structural measures accounted for 166 064 million euro.

- ***Mid-term review, reprogramming and allocation of a performance reserve for operations under structural measures over the 2000-2006 period:*** this involves examining, firstly, the quality of the mid-term reviews of operations under structural measures during the 2000-2006 period and, secondly, the reprogramming procedure, as well as the performance reserve allocation. The audit will allow the efficiency of supervision by the Commission and the usefulness of the evaluations with regard to reprogramming and performance reserve allocation to be examined. The operations under structural measures for the 2000-2006 period account for 230 032 million euro.

Regional and cohesion policies

- ***Large-scale projects:*** the Structural Funds may contribute to large-scale projects, i.e. where the total cost on which the Community contribution is

based is over 25 million euro in the case of infrastructure investments and 15 million euro in that of productive sector investments (1994-1999 period). The total cost for the 2000-2006 period is over 50 million euro. The audit will allow examination of whether the rules governing large-scale projects were observed and whether expenditure was managed in accordance with the principles of sound financial management.

- **Additionality:** Regulation No 1260/1999 provides for mid-term verification of additionality with regard to the 2000-2006 period, following which the Commission and the Member State may agree to revise the level of structural expenditure. This verification is carried out by Member State at Objective 1 level and for Objectives 2 and 3 taken together. The mid-term additionality audit will also aim to examine whether the problems regarding compliance with the above principle over the 1989-1993 and 1994-1999 periods that were pointed out in SR No 6/99 (OJ C 68, 9.3.2000) were taken into account.

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.

- **ESF 2000-2006 Programming:** The new approach for value for money (vfm) audit of ESF, developed through pilot audits in 2002/2003 and first fully implemented in the Early School Leaving audit in 2003/2004, requires the selection of a subject that, in spite of the unavoidable differences between the national employment and social policies (there is no European employment and social policy, but only a coordination of national policies in this area) can be treated in one vfm enquiry. For reasons of efficiency it is proposed, to make a comprehensive analysis of the available programming and implementation documentation. The objective of this study is then to identify (sub-)themes which have sufficient coverage by national programmes and concern management structures not covered by recent audits, and are of sufficient financial importance. From the resulting list, topics can then be selected for the coming years' value for money audits.

Internal Policies

- **TEN-Transport:** The TEN-T management system is, in value terms, the most important non-research management system of the IP area. A total financial framework of 4,600 million euros is provided for the period 2000 - 2006 for all sectors of the trans-European networks.

Procedures and conditions for, and forms of granting Community aid to projects of common interest in the field of Trans-European Networks are

established. Projects of common interest are projects located on the routes identified in Community guidelines for the development of the trans-European transport network and which meet technical criteria and specifications

This audit evaluates the management system put in place by the Commission and by the Member States for the administration of the TEN-T programme.

- **6th Framework Programme:** The sixth Framework Programme for research, technological development and demonstration activities (FP6) was adopted on 27 June 2002. With an initial budget (prior to enlargement) of 17 500 million euro, it covers the period from 2002 to 2006. The results of the audits carried out during the past few years in the field of research have shown important weaknesses in the control procedures applied for the implementation of RTD programmes. On the basis of the findings communicated by the Court, the Commission has introduced some modifications in its management systems.

The audit is a cross-DG integrated audit of the Commission's management of the Framework Programme as operated by the five research DGs (RTD, INFSO, TREN, ENTR, FISH) aiming at assessing the effectiveness and efficiency of the new control mechanisms introduced for the FP6.

- **European Refugee Fund:** Expenditure in the "Area of Freedom, Security and Justice" is mainly managed by DG Justice and Home Affairs. The DG has been forced to respond rapidly to the effects of external events, like terrorism and it has also faced a shortage of human resources. As a specific subject, it has not been audited yet by the Court, except for the European Refugee Fund (ERF) in the framework of the 2003 Statement of Assurance.

The audit objective is to evaluate the management of the European Refugee Fund, in particular concerning the themes of the distribution of budgetary resources between the Member States, the project selection and implementation and the additionally.

- **GALILEO Joint Undertaking:** The GALILEO Joint Undertaking was set up for a period of four years till 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 responsible for the audit of the GALILEO Joint Undertaking (GJU). The audit work will result in an annual audit report and this will include an audit opinion on the legality and regularity of the underlying transactions and reliability of the accounts.

- **Health and consumer protection:** . A Community action programme in the field of public health (2003-2008) with an overall budget of 312 million euro was launched in 2003. In addition, the Commission funds specific projects at Community or national level in support of the consumer policy objectives set down in the Financial framework for Consumer Policy 2004-2007.

The audit objectives are as a first step, to establish, for the 2004 DAS specific appraisal of the Internal Policies area, a system analysis of the Commission's activities in the areas of Consumer Policy and Public Health including an assessment of the legality and regularity of the transactions. Secondly to evaluate the management system put in place by the Commission for the implementation of Community activities in the areas of Consumer Policy and Public Health and finally to examine the sound financial management aspects of the actions in the areas of Consumer Policy and Public Health, addressing the questions of whether the actions effectively contribute to attain the objectives set out in the corresponding legal basis, and whether these actions are managed efficiently and economically.

- **Scientific and socio-economic impact of the European RTD FP's :** The European Community has funded successive programmes concerned with supporting research, technological development and demonstration (RTD). The programmes have attracted increasing budgetary allocations The

Commission is currently preparing the next framework programme which is expected to cover the period 2006-2010 and again entails an increased budget allocation.

This audit will focus on the impact of the Community actions under the successive RTD framework programmes, mainly looking at FP4 and FP5 (whose research actions will have been completed to a large extent by 2006).

It will be assessed how, and to what extent, the Community programmes contributed to the Lisbon objectives of making the European Union the "most competitive and knowledge-driven economy".

External measures

- **Environment:** Included as preliminary studies in 2004 for two divisions, the topic concerns both budgetary and EDF (European Development Funds) expenditure. The amounts are substantial (estimated for EDF and Budget together between 300 million euros and 500 million euros) and in many cases environmental aspects are included in other projects. The risks are that management may lack information on volume, scope and impact on this type of intervention. This theme has never been audited in a comprehensive manner. The European Parliament has shown interest in the past years, including ad hoc questions on impact of e.g. infrastructural projects on the environment.

- **MEDA (Measures to accompany the reforms to the economic and social structures in the Mediterranean non-member countries):** The first MEDA agreement came to an end in 2003. In the past the MEDA predecessor (Protocols) has been audited comprehensively at the time that those programmes came to an end. Given the political importance of the MEDA agreements it has been decided to carry out an audit to assess to what extent

progress was made on its main objective: closer economic cooperation between EU and Mediterranean countries.

- **CARDS(Community Assistance for Reconstruction, Development and Stabilisation) Management Systems and Structures:** A unique feature of the CARDS programme compared with other external aid programmes is the complexity of its management structures. The operational budget of CARDS is managed by the European Agency for Reconstruction, the Commission Delegations in the beneficiary countries and the Commission headquarters. The audit will identify how the various systems of project management were functioning in the different organisations.
- **CARDS Assistance to the Energy Sector:** This is the sector of the CARDS programme with the highest level of commitments, mainly in Serbia and Kosovo. There is a significant level of risk in this area, both in relation to investments and institution-building. The audit will involve a detailed examination of the economy, efficiency and effectiveness of the Commission's support to this sector in Kosovo and Serbia and other interventions, notably under the regional programme
- **Effectiveness of TACIS (Technical Assistance to the Commonwealth of Independent States) Projects in the Russian Federation:** The Russian Federation is the largest recipient of TACIS funding. A representative sample of projects will be audited throughout the whole project cycle, from programming and project identification to implementation and evaluation with a view to lead to better planning and implementation of EU aid.
- **TACIS Country Programmes in Moldova, Armenia and Uzbekistan:** The audit objective is to establish whether the performance of the TACIS programme in these countries has been economic, efficient and effective. Special attention will be paid to the fact that the projects in these countries, representing the three main geographical regions of TACIS area (Western

TACIS countries, Caucasus and Central Asia), are managed by EC Delegations in other countries.

- **Audit concerning management of Technical Assistance:** See tasks described under EDF.

Pre-accession aid

- **Performance of PHARE Investment Projects in Bulgaria and Romania:**
The volume of the pre-accession aid to Bulgaria and Romania is rapidly increasing . The administrative capacity of the decentralized implementing agencies in these countries is still weak with the result that there are significant risks associated with the measures, especially in the area of the Economic and Social Cohesion Programmes. The objective is to publish a report well before the anticipated accession in 2007 so that the results of the audit would have an impact on the programmes to be implemented in the countries newly entering negotiation.
- **Effectiveness of Pre-accession Aid to Turkey** - This audit topic was included in the WP 2004, but postponed until the end of 2005. The decentralized implementation started in Turkey only in 2004. The first pre-accession programme in Turkey is not yet completed but well advanced. The EU aid to Turkey has not been audited in recent years.

Administrative expenditure

Administrative expenditure of the EU institutions - Dépenses de fonctionnement des institutions communautaires

- **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. This audit started in 2004.

- **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. This audit started in 2004.
- **Enforcement of the New Staff Regulations:** Examination of the tools and procedures used by each Institution to ensure a correct reclassification of staff and a flawless determination of entitlements according to changed rules. This audit will start in the second half of the year, if the results of the substantive testing of transactions carried out in the context of the DAS 2004 audit will show a high level of errors.

Community agencies and other satellite bodies

- **Agencies:** recurrent audits and drawing-up of reports on Community agencies and other satellite bodies, as well as the European Schools.

Financial instruments and banking instruments

- **European Central Bank (ECB):** Recurrent audit of the efficiency of the management of the ECB.
- **Financial instruments:** Recurrent audit of the Guarantee Fund for external actions.
- **Audit of participations:** EU participations in the banking sector concern notably the 30 % participation in the European Investment Fund (EIF). In addition there is a minor participation of 3 % in the European Bank for Reconstruction and Development (EBRD). The audit objective will be to

assure that the value of the capital participation is not subject to persisting alteration and will concentrate on the measures taken by the Commission to monitor its capital participation and to ensure that the activities in question do not conflict with applicable EU legislation.

- **Banking instruments/EIB/phase I: Baltic Sea:** The audit will examine, in the first stage, relevant banking projects in the environmental area in the Baltic Sea including those benefiting from a specific guarantee for environmental projects in the Russian part of the Baltic Sea. The audit will be completed in 2005. In a second phase it is envisaged to include similar projects in the Mediterranean. A preliminary study in this respect will be executed in 2005.

European Development Fund (EDF)

- **Environment:** See common task described under "External measures".
- **Management of technical assistance (TA) framework contracts:** Recently some procedures on recruitment of TA experts have changed, also in relationship with the devolution exercise. An important aspect is the creation of a data base and inclusion of TA's in this database after a screening. Given the impact of TA (studies, support to government services, evaluations) it has been foreseen to assess this Commission's selection system which should ensure the recruitment of highly qualified consultants.
- **Effectiveness of technical assistance and individual experts:** This topic will complement the "management of technical assistance framework contracts". It has been subject to a horizontal audit many years ago, but could be re-done because technical assistance and individual experts are a common feature of EC development aid projects with specific associated risks and a high potential impact on the effectiveness of the projects. The main aspects to be covered could be the following (adequacy and quality of the

selection; need/utility; insertion in national strategy in respect of capacity building according to the PRS q (Poverty reduction strategy) objectives; reality/quality/adequacy of service and work provided; relationship with devolution; etc).

- **Public finance Reform:** finalisation of an audit of public finance reform in ACP countries receiving budget support from the European Union is planned for 2005. The EU uses over one quarter of EDF funds as direct budget support for many ACP countries. In return, measures that are intended to result in improved public finance management are agreed with these countries. The audit aims to verify that the Commission, together with the other fund providers concerned, obtains assurance of improvement in public finance management.