

EUROPEAN COURT OF AUDITORS
2006 WORK PROGRAMME

Introduction

The audit tasks selected by the Court under its 2006 work programme are presented below in a breakdown by financial perspective area. It should be noted that the Court will also carry out a number of preliminary studies, some of which have been included in this document; whether to carry out a full-scale audit will be decided once the results of the preliminary studies are known.

Each task is the subject of a descriptive note, with details of the level of funds involved, where possible.

Over and above the tasks included in this document, substantial resources are allocated to DAS work (specific assessments) in each area, and DAS division itself earmarks quite substantial resources to reviewing the reliability of the accounts. The review of budgetary management and the follow-up of previous observations also absorb substantial resources.

As in previous years, the legality/regularity aspect of the DAS will draw on four sources and rely on the specific assessments relating to the various chapters of the financial perspective. The four sources for each specific assessment are:

- an evaluation of the functioning of the supervisory and control systems;
- substantive tests of underlying transactions;
- review of the director-generals' declarations;
- the work of other auditors.

Revenue

Traditional own resources

- **Binding tariff information:** Binding Tariff Information (BTI) is a Community-wide system which provides traders with tariff classification decisions which are legally binding throughout the EU. BTI decisions are issued by the Customs administrations in the various Member States, and can have widespread and durable effects on traditional own resources. The system relies on a central database run by the Commission. The audit will assess the reliability of the database, the arrangements made to ensure the consistency of decisions, and the procedures for resolving problems.
- **Internal audit in customs authorities:** The joint audit arrangement (JAA) has been developed within the traditional own resources field since 1994, and covers cooperation between the Commission and internal audit functions in the majority of Member States. Internal audit is increasingly important because of the introduction of e-customs, but the approach and coverage varies greatly across the customs union. The Court's audit will review the scope and quality of internal audit in Member State customs authorities, and assess the extent to which it contributes to assurance that the systems are well conceived and operate as planned.

VAT/GNI Own Resources

- **GNI Components:** Payments made on the basis of Gross National Income cover more than 70 % of the Union's own resources. Member States' replies to the GNI Questionnaires are the main data source for calculating GNI based own resources. The audit will focus on selected components of the GNI questionnaire to examine whether the underlying sources and methods described in the Inventories have actually been

used in an accurate and transparent way when producing the figures for the GNI Questionnaires.

- **Administrative cooperation for the application of VAT in the intra-Community trade:** The audit will deal with the implementation of Council Regulation No 1798/2003 on administrative cooperation in the field of VAT, which entered into force in 2004. The purpose of such cooperation is to tackle VAT fraud (in particular carousel frauds) more effectively. It will be verified during the audit how the VAT Information Exchange System (VIES) operates and whether information requests between Member States are handled swiftly and properly.
- **Consolidation of Court's observations in respect of the OR system:** The aim of this task is to consolidate the main findings and conclusions from audits related to VAT/GNI since 2000. It is considered that this consolidation will facilitate an analysis of the strengths and weaknesses of current arrangements for VAT and GNI own resources, thus contributing to the ongoing discussions on the future of the Community's own resources system.

The common agricultural policy

A number of preliminary studies and selected audit tasks linked to the reform of the CAP and enlargement are as follows:

- **Single Payment Scheme Entitlements:** The CAP reform provides for a single payment to farmers. Each farmer will be given so called entitlements which have to be established in a first round in 2005 in 10 Member States. Payment entitlements will be the base for direct payments to beneficiaries. It is thus important to get assurance that they are properly fixed. It is also intended to verify that these payment entitlements (amounts of aid per

tonne/ha) are correctly identified and registered in the Integrated Administrative and Control System and that there is a system put in place to permanently update these registers.

- **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 the Commission has ensured that penalties and sanctions are applied, that they are set at levels which have the desired deterrent effect; and that any financial penalties are recovered and credited to the EU budget.
- **Aid for processed tomatoes, peaches, pears and citrus fruits:** The objective of the aid (652 million euro in 2005) 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 whether the Commission has implemented the policy in a way to ensure that the aid contributes to the policy objectives, and to evaluate whether the control systems put in place by the Member States ensure that payments made are correct.
- **Producer organisations in the fruit and vegetable sector in the New Member States:** This is an extension of the audit carried out in 2005 in the old Member States. The EU encourages the formation of producer organisations 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 which have the objective of improving quality, increasing added value, improving production and marketing and helping the achievement of sound environmental practices. 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.

- **Implementation of Regulation No 386/90 in the New Member States:** 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. With the accession of the new Member States, *inter alia*, external borders of the EU were shifted to the east. Physical on the spot checks of the goods exported to third countries are of high importance in order to ensure regularity and legality of the export refund claims. Assurance, therefore, has to be sought that the measures undertaken by the new MS are in conformity with the regulation and that the financial interests of the Community are well protected.
- **Export refunds - Pre-enlargement measures:** The objective of this audit is to ascertain whether or not the Commission monitored the export of agricultural products attracting refunds to the new Member States in the run up to the date of enlargement, 1 May 2004, and took appropriate action to prevent significant quantities of such goods attracting further subsidies after that date. The audit will establish the quantities of products thus exported and the value of refunds involved. It will evaluate the monitoring procedures adopted by the Commission (including OLAF) and any action taken.
- **Reliability of SAPS/IACS inspections in the 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 Scheme in the new Member States. The audit will focus on establishing the existence of the different key elements in IACS with a view of assessing whether they are adequate and operational.

- **Milk quotas in the 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.
- In addition to the central themes of enlargement and the reform of Community policies, the continuing implementation of internal control systems at the Commission and in the Member States will be covered by the work relating to Clearance of accounts and Internal Audit DG Agri. The specific aspect of reform of the accounting systems will be considered within the framework of the reliability of accounts part of the DAS.
- **Compliance with EU fisheries legislation:** the primary objective of the Community fisheries policy (CFP) is sustainable exploitation of living aquatic resources. Sustainable exploitation requires a balance to be maintained between available resources and catches. The "total allowable catch" (TAC) system of catch limitation is the main instrument for managing that balance, in combination with quota allocations to Member States, supplemented by a system of fishing effort limitation. The audit objectives will be: the quality of the regulatory framework, its implementation by the Member States and its supervision by the Commission.

Structural measures

- **Mid-term review of Structural measures assistance 2000-2006:** This task 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 focus on the monitoring by the Commission and will assess the usefulness of the evaluations with regard to reprogramming and performance reserve allocation.
- **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.

In addition to the above audit tasks, a number of preliminary studies will be undertaken, which are likely in most cases to lead to audit tasks in the following areas:

- **Coordination of Community Interventions:** The preliminary study has to analyse whether an audit on the coordination within and between Structural Actions and Internal Policies is feasible at regional, national and Community level. Recommendations could be envisaged for improving existing coordination procedures in order to ensure a more effective use of EU funding under Structural Actions and Internal Policies. The coordination procedures within the three main phases of programme realisation (planning, implementation, evaluation phase) will be examined. The

examination will focus on the coordination within and between programmes at regional, national and Community level.

- **Additionality:** Regulation No 1260/99 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 future audit will examine the compliance with the principle of additionality in the mid-term review and at the end of 2005. The audit will take account of previous observations made in the framework of RS No 6/99 (JO C 68, 9.3.2000).
- **The European Union Solidarity Fund (EUSF):** EUSF is a financial instrument intervening in the case of major natural disaster for restoration, temporary accommodations, securing and cleaning up. The objectives of the study are the criteria for financial assistance, timeliness of decisions, selection and coordination of actions and monitoring by the Commission.
- **Outermost regions:** This potential task is concerning Azores, Canaries, Madeira, Martinique, Guadeloupe, Guyana and Reunion. They benefit from specific measures based on their particularities and on the objectives of socio-economic development. The complexity of the programmes and the multitude of types of aid from which these regions benefit can lead to a major risk of lack of coordination of synergies and proper implementation, reducing the effectiveness of the programmes and the aid. The audit will examine the procedures dealing with coordination, programming, review, monitoring and evaluation.
- **Gender equality in the labour market:** The problem of unemployment is more significant for women than for men. Equality of chances was initially one of the four pillars of the programming period 2000-2006, the objective of which is at least 60 % of female participation by 2010. The aims of ESF are to open access to learning for women, to the labour market and reducing the pay gender gap. In support of this policy objective, the

Commission has also launched a programme entitled "La nouvelle stratégie - cadre communautaire en matière d'égalité entre les hommes et les femmes" outside of the Structural funds. The audit is intended to assess whether the objectives have been achieved.

- **State aid schemes related to regional development:** Regional development supports three themes: public investment, productive investment and investment in human capital. State aid schemes have been approved by the Commission for the programming period 2000-2006. The Commission also intends to adopt new guidelines on regional aid. The audit objective will be to make a review of the current application of the regional aid guidelines in a limited number of programmes.
- **Projects ISPA / Cohesion funds:** The objective of a future audit would be to check for new Member States if the projects were carried out as intended and contributed to the process of integration for the economic development. The preliminary study is based on closed ISPA projects. The multitude of types of aids can lead to a lack of coordination, control and assessment.
- **Audit of Technical Assistance used in the management of Structural Funds Programmes:** This task concerns the audit of Technical Assistance measures contained within European Social Fund Operational Programmes. The purpose is to carry out a comprehensive audit combining financial audit and performance audit objectives.
- **Environment and Sustainable Development:** In 2001 the Commission defined a strategy for sustainable development without compromising the ability of the future generations to meet their own needs. This strategy is divided in three parts: economy, social and environment. It will be verified to what extent Community funds have contributed to the achievement of the objectives of the Community's strategy, in particular the practical measures at EU level for attaining these objectives.

Internal policies, including research

- **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".
- **6th Framework programme:** FP6 is divided into two parts, covering the activities financed by the European Community budget and those covered by the Euratom budget. Under FP6, the Community contributes to promoting and developing human resources, mobility and networks of excellence. The audit should result in the proposal for improvements in the procedures for the Seventh Framework Programme, due to enter into force in 2007.
- **Public Health:** Objectives of the different programmes are to improve information and knowledge about public health. The audit should conclude on whether or not all conditions are met for ensuring effectiveness of the actions, and identify success factors of projects that have resulted in a positive, sustainable contribution to the objectives and can demonstrate a clear European added value.

Following the completion of preliminary studies, the audit tasks set out below are also envisaged:

- **Galileo Programme:** Galileo is the European Programme for the Global Navigation Services. To complete the development of this program a Galileo Joint Undertaking (GJU) has been set up. This program is divided in three phases: development and validation phase (2001-2005), deployment phase (2006-2007), and commercial phase (2008). Audit objectives are likely to focus on the setting up and appropriateness of the different structures for the Galileo Programme; the financial flows and whether the Community funds are used in an efficient, effective and economic way; the future Community contribution to the Private Public Partnership associated with its exposure to risk.
- **Vocational Training activity (incl. Leonardo):** The study deals with the vocational training and settling up of the Leonardo da Vinci Program. The aim would be to assess in detail the risks associated with the management of the vocational training activities.
- **Energy including TEN-Energy:** Four pillars are concerned: TEN-E, renewable and conventional sources of energy, nuclear energy and energy research. The objectives of the audit could be the evaluation of management system for energy programmes, the coordination of various initiatives in the area of energy and the relations between research and policy initiatives.
- **Schengen Facility:** The instrument has been created to help beneficiary Member State for the implementation of the Schengen acquis and external border control. This instrument finances investments in construction, renovation or upgrading of border crossing infrastructure and related buildings as well as investment in any kind of operating equipment, training of border guards and support to costs for logistics and operations. A future

audit is planned to focus on the implementation of the different measures according to the rules applicable.

External measures

- ***MEDA (Measures to accompany the reforms to the economic and social structures in the Mediterranean non-member countries)*** - Given the political as well as the significant financial importance (8 800 million euro foreseen for the period 1995 to 2006) of the MEDA agreements, it was decided to carry out an audit that started in 2005. The main objectives of this work are to find out to what extent this programme actually contributes to reforming the economic and social structures in the participating countries and to assess whether the Commission's management is adequate. The audit will be completed in early 2006.
- ***Rehabilitation and reconstruction aid*** - In the recent years a relatively important number of natural catastrophes has taken place and has drawn strong attention not only to the aspects of emergency aid but also to the following reconstruction phase. A preliminary study of rehabilitation and reconstruction as a bridge between humanitarian aid and development is foreseen for 2006. By the time the study will be launched the reconstruction activities relating to different catastrophes in different part of the world will be at different stages which gives a good basis for a balanced view of the situation. In this context, the Commission's management of aid provided through International Organisations will also be examined. After the preliminary study an audit will be launched in 2007.
- ***Environment*** - After a preliminary study in 2004 an audit was started in 2005 on environment support financed by both budgetary and EDF (European Development Funds) expenditure with an amount between

300 million euro and 500 million euro involved. The Audit will be finished in early 2006 and a Special Report will be produced in the first half of 2006.

- **TSUNAMI** - An audit on the actions undertaken and the funds devoted by the EU (ECHO DG) to the countries affected by the Tsunami of 26 December 2004 was decided to be carried out quickly after the catastrophe. A total amount of 103 million euro has been committed to cover actions to be implemented by NGOs and international organisations. The Audit was started in 2005 and will be completed in early 2006
- **CARDS Systems and Structures** - This audit started in 2004 and will be completed in early 2006. A unique feature of the CARDS programme compared with other external aid programmes is the complexity of its management structures. More than half of the programme is implemented by the European Agency for Reconstruction and the rest by devolved Commission Delegations. The Court will provide feedback on how effective the different ways of aid delivery have been in achieving the objectives of the CARDS Regulation and how well the different structures would serve as a model for similar aid programmes in the future.
- **CARDS Administration and JHA Programmes** - One key issue in relation to the CARDS programme is to what extent it has been effective in strengthening the public administrations and improving the judicial system in the beneficiary countries and allowing organised crime to be combated effectively. Because of its sensitivity, this area continues to be one of the riskiest sectors and there are indications that in particular the judicial and police sector on the one hand, and the integrated border management programmes on the other have the highest level of risk of not being effective in achieving their intended impact.
- **TACIS in Armenia, Moldova 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 have been managed by EC Delegations located in other countries which may have complicated the control of projects. Furthermore, these countries were selected as no performance audits have ever been carried out in these geographical areas (Western TACIS countries, Caucasus and Central Asia).

- **Nuclear Safety** - In 2005 the Court carried out the second follow-up review of its 1998 report on the TACIS nuclear safety activities. The results will be published in the Court's Annual Report 2005. The original report and the subsequent follow-up reviews did not cover the measures aimed at mitigating the impact of the Chernobyl Nuclear Power Plant disaster of 1986.
- **TACIS Chernobyl**- The implementation of the EBRD programmes as well as that of the TACIS Chernobyl projects is delayed. A high risk of waste through inefficiency has been identified. The specific audit objectives are yet to be formulated but are likely to establish (1) whether the Commission has adequately controlled the regularity and efficiency of the use of its financial contributions to the international (trust) funds established under the auspices of the EBRD to mitigate the Chernobyl NPP disaster, and (2) whether the transactions of the ICSRM project (Industrial Complex for Solid Radwaste Management under the TACIS Nuclear Safety Programme) are legal and regular, and whether the project is managed efficiently.

Pre-accession strategy

- ***Pre-accession Aid to Turkey*** - The initial examination of the programme has revealed that the implementation of the pre-accession programme in Turkey has started slowly. Therefore, this task which was previously envisaged has been postponed.

Nevertheless, the commitment appropriations available for Turkey in the budget 2006 are important, i.e. 470 million euro. The decentralised implementation started in Turkey only in 2004. The Work Programme of 2006 envisages the beginning of a preliminary study with the aim at starting a performance audit in 2007.

Administrative expenditure

Administrative expenditure of the Community institutions

- **Buildings expenditure:** termination of the audit of expenditure incurred for the purchase and leasing of buildings, from the aspects of legality, regularity and sound financial management. In 2003 the budgetary appropriations earmarked for this type of expenditure amounted to a total of around 357 million euro. The audit began in 2004.
- **IT expenditure:** preliminary study concerning the legality, regularity and sound financial management of contracts concluded by the institutions for the purchase or leasing of services and equipment in the area of IT.
- **Efficiency and effectiveness of EPSO (European Personnel Selection Office) management:** preliminary study of the efficiency and effectiveness of EPSO's internal organisation and management.

Community agencies and other decentralised bodies

- **Agencies:** recurrent audits and reporting on the Community agencies and other decentralised bodies, and the European Schools.

Financial instruments and banking activities

- **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.
- **ECSC i.L.:** Recurrent audit of the ECSC in liquidation.
- **Banking instruments/EIB/phase II - Mediterranean:** Following a preliminary study the audit concerns budgetary support for interest rebates, risk capital and technical support measures carried out in the Mediterranean basin. The planned audit will be carried out at the levels of the Commission, the EIB and on the spot visits (delegations and financial intermediaries and beneficiaries).
- **Phasing-out of risk capital operations (ECIP - MEDIA - Eurotech - Venture consort and Joint Venture Programme):** The risk capital operations are being phased out but, for substantive amounts, decisions need to be taken in respect of further follow up, including valuation, and on the amounts still to be recovered. The audit will be targeted on the measures taken by the Commission to ensure that the financial interests of the Community are adequately protected.
- **Protection of the Euro:** This audit will start in 2006 following the completion of a preliminary study. It will examine the efficiency and effectiveness of the measures put in place to protect against counterfeiting.

European Development Fund (EDF)

- ***Technical Assistance*** - Technical assistance and individual experts represent about 5 % of development aid and are a common feature of EC development aid financing with specific associated risks and a high potential on the effectiveness on the projects. A preliminary study on the management and effectiveness of technical assistance has been launched in 2005 and will be completed in early 2006. The objective of this study is to assess the potential significant risks to sound financial management.

On the basis of the results of this study the content and scope of an audit to be started in 2006 will be determined.

- ***Direct budget support*** - The direct budget support is of increasing importance as an instrument for the EU and others donors (circa 20 % of EDF aid) and it is used according to the national budgetary procedures with, in general, weak management systems. A pilot audit will be launched together with SAIs of other donor countries in order to develop an audit model which would align the audit activities of the external audit authorities of the donors' community in cooperation with the external audit authority of the beneficiary countries.