

Producing a National SAI report on EU financial management

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Executive summary

The Working Group on National SAI reports on EU financial management (WG) strives to assist SAIs developing national reports. Whilst recognising the differences that exist among national SAIs, it functions as a platform to promote co-operation in the field and to co-ordinate approaches and make recommendations on themes of common interest. In this paper the WG gives national SAIs some practical information and guidance as to how they might structure and produce an own national report on EU financial management.

A national SAI report is considered to be a good tool to give shape to the role that national SAIs have in reporting on the financial management of, and accountability for, EU funds in their own Member State. It is recommended to describe in these reports the developments in financial management taking place at the EU-level, as well as to report on the situation in the own Member State. Such reports provide much needed information on EU financial management that can be used, for instance by the national parliament when it discusses the discharge procedure for the execution of the EU budget for a given year or other key issues in the field with government. The WG invites as many EU SAIs as possible to produce first, however simple national reports. Later on some harmonisation can probably take place (e.g. common themes, indicators). These national reports can lead to improvements in national systems and structures, make government take initiatives to address concerns in 'Brussels'. The development of a national reports also gives EU SAIs increased possibilities to be informed on EU matters in other Member States, which will greatly benefit national discussion and stimulate improvement. In this paper some suggestions are furthermore made on practical issues and resources required. In the separately distributed annexes to the paper the titles of EU SAI reports in the field, information on possible contents, resources used and public information sources are given.

If your national SAI becomes interested in developing an own national report on EU financial management, you are requested to contact the chair of the WG (Piet Rozendal, liaison officer of the Netherlands Court of Audit). The WG is open to all EU SAIs.

1 Introduction

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At its meeting in Prague in 2003, the Contact Committee adopted Guiding Principles for Enhanced Co-operation. These principles emphasize the common interest EU Supreme Audit Institutions (SAIs) have *"in working together to improve the audit of European Union funds and other matters concerning good governance for the benefit of EU citizens"*.

Whilst the responsibility for auditing the European Commission and its mandate for the execution of the EU budget lies with the European Court of Auditors (ECA), national SAIs *"have an important role to play in reporting on the financial management of, and accountability for, EU funds in their own Member State"*. As is stated in the Guiding Principles, all EU SAIs should *"work together to improve the framework and conditions for the audit of EU funds"*.¹

Keeping these principles in mind, the 2003 Contact Committee mandated a working group of SAIs to deal with the matter of national SAI reporting on EU financial management. The Working Group on National SAI reports on EU financial management (WG) at present consists of the SAIs of Belgium, Denmark, Estonia, the Netherlands (chair), Poland, Sweden and the United Kingdom. The SAIs of Germany and Spain and the ECA have from the start been participating as active observers of the WG.

The primary goal of the WG is to encourage EU SAIs to publish annually national reports on EU financial management developments in their Member States. Such national reports can increase the knowledge of EU financial management developments and encourage discussions thereof within the Member States. In the long-term, when more national SAIs participate, this could even help to improve financial management, reporting and accountability within the European Union as a body.

So far four EU SAIs produce national SAI reports on EU financial management (Denmark, Italy, the Netherlands, and the United Kingdom - see Annex 1 for them and also a list of EU reports published by other EU SAIs). Their primary reason for doing so is to keep their national parliaments informed about the management of EU funds in their own Member State. Some have focussed largely on what is stated about their Member State in the ECA Annual Report (Denmark), whilst others have included more own audit results (Italy, the Netherlands and the United Kingdom).

This paper of the WG seeks to address the following issue: -

¹ See Explanatory notes of Guiding Principles no. 1 and 2.

Why should a SAI develop a national report on EU financial management and how can such a report be developed?

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In broad terms, a national SAI report focuses on the state of affairs in EU financial management and its results, both at the level of EU as a whole and at the level of the own Member State. National SAIs draw upon the work done by the ECA and reported in its Annual Report and supplement this with further investigations of developments in the field and own audit results. Their national reports will be published annually and provide insight into developments and trends in the field of EU financial management.

To achieve sound financial management and reporting at the EU level, changes at the level of the Member States are also necessary. Discussions on financial management and audit in European Parliament and within the European Commission are increasingly focussing on this issue. This paper aims to give national SAIs considering developing activities in this field some practical information and guidance as to how they might structure and produce their own national report on EU financial management.

2 The added value of producing a national report on EU financial management

The EU is a union of Member States and the latter play a key role not only in the decision-making arena (collectively in the European Council and in the Council of Ministers), but even more so in the area of policy implementation and in the financial management of EU funds. Given the principle of subsidiarity (which also underlies the relationship between the EU and its Member States when policy is administered) and the broad scope of financial liability shouldered by the Member States, there is a high risk of claims at the national level (also for problems that occur at more decentralized levels). More than 80% of EU expenditure takes place within the Member States (shared management responsibilities). It is therefore in the national interest to acquire sound information on these matters, and national SAIs can play a key role here given their mandate, expertise and contacts.

The broad role and responsibilities of the Member State in the administration of EU policy can also be found in a number of EC Treaty provisions:

Article 10: Principle of loyal cooperation

Member States shall take all appropriate measures, whether general or particular, to ensure fulfilment of the obligations arising out of this Treaty or resulting from action taken by the institutions of the Community. They shall facilitate the achievement of the Community's tasks.

They shall abstain from any measure which could jeopardise the attainment of the objectives of this Treaty.

(see also Article 5(2) of the Treaty establishing a Constitution for Europe)

Article 274: Budget implementation

The Commission shall implement the budget, in accordance with the provisions of the regulations made pursuant to Article 279, on its own responsibility and within the limits of the appropriations, having regard to the principles of sound financial management. *Member States shall cooperate with the Commission to ensure that the appropriations are used in accordance with the principles of sound financial management.*

(...)

Considering the unique mandates that national SAIs possess, they are the only institutions with full access to the documents and information necessary for a thorough and objective analysis of the financial management of EU funds at the Member State level.

- For SAIs whose mandate is focussed on regularity audits at the national level, and who have only limited authority to deal with EU matters, the financial liability aspect could be used to legitimise the publication of a national report on EU financial management.
- For national SAIs with a mandate focussed on informing the national parliament, the publication of a national report on EU financial management could greatly inform the national parliament and facilitate their work in holding the national government accountable in this area and in verifying whether national interests are adequately protected.

In general terms the publication of a national SAI report on EU financial management stimulates the discussion of EU financial management at the Member State level and can lead to improvements in national systems and structures. It also may be seen as a national addition to the Annual Report of the ECA and can lead national government to take initiatives to address concerns in 'Brussels'. As such it could strengthen the co-operation between the national SAIs and the ECA, as envisaged in article 248 of the EC Treaty. The development of national reports also gives EU SAIs increased possibilities to be informed on EU matters in other Member States, which can greatly benefit discussion and stimulate improvement.

Important elements of added value are: -

- Informing and providing guidance to national parliaments, the general public and the media. There is much fragmented information on EU developments

available. A national report on EU financial management selects and structures this overload of information and draws attention to matters of national interest.

- Providing the national government with input for determining its position within the EU, for example in Ecofin when the Council's recommendation on the discharge of the execution of the EU budget is debated.
- Covering high risk areas. Although the financial impact of EU funds is relatively small in relation to the national budget, this is an area in which Member States have important obligations to the EU with a high risk of errors and irregularities.

National reports can therefore have different purposes:-

- To increase information and knowledge of EU financial management. National reports can primarily have an informative purpose and thereby reinforce parliamentary scrutiny and help inform the public.
- To assist in the EU discharge procedure (where among others the ECA Annual Report is discussed). National reports give the national parliament important input for its discussion with government of the Ecofin recommendation for the discharge procedure. They can also give European institutions in general, and European Parliament in particular, valuable information on the situation in the different Member States.
- For national accountability purposes. National reports can help to improve accountability reporting on the management and spending of EU funds, thereby increasing the transparency of government.

In a national report what is reported on depends of course on the specific purpose of the national SAI. Some national SAI reports may have only one purpose (e.g. to inform), whilst the national reports of others may serve multiple purposes. In addition, there are also many other specific interests national SAIs might have in producing a national report on EU financial management and they are not mutually exclusive. It is important for each individual SAI to be clear why it is producing the report and what its objectives are. Some SAIs may want to publish a national report to help intensify relations with government and parliament, others may want to check the compliance of their Member State with its obligations stemming from EU legislation. Paradoxically, reports based on differing motives can contain common information and contribute to the same final objective - the increased transparency and improved financial management within the EU to which its citizens are entitled.

Finally, European Parliament adopted on April 21, 2004 a resolution in the context of the 2002 discharge in which it "(c)alls on the national supreme audit institutions to play an active part in this process with a view to adopting a specific policy on auditing EU funds, drawing up an annual report on the management and use of EU

funds in their country, and submitting it to their government and parliament, the other Member States' governments, parliaments and audit institutions, the Commission and the European Parliament."

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3 A Phased approach

The WG intends to follow a *phased approach* in its efforts to coordinate activities in the field. First and foremost the group will encourage and help as many EU SAIs as possible to produce first, however simple national reports. We recognise that the 25 national SAIs have different mandates, different relationships with their legislatures and different reporting arrangements and conventions. As not every national SAI will have the same ambitions and possibilities, differences are inevitable. Later on some harmonisation could probably take place (e.g. common themes, indicators), respecting each SAI's independence. In the short-term however, it is considered more important that many national SAIs are conducting audit work in this field and developing a national report on EU financial management.

4 Suggestions for the content of the report

Given the differences that exist among national SAIs, the content of a national report on EU financial management is of course up to each individual national SAI to decide. Those that have already produced reports, have found it useful to describe important developments within the EU institutions regarding the financial management of EU funds and give relevant audit information concerning their own Member State's financial management/handling of EU funds. In the interest of efficiency, sharing of information and facilitating the development of more general observations, it is recommended that national SAI reports contain information on both topics.

A large variation exists in the size of the national reports and the resources available to put into it. The WG would like to emphasize, that the most important thing is to get started and maybe produce a less ambitious report the first time. Later on the SAI may consider developing its report and adding more information.² To assist in the development of national SAI reports the Netherlands Court of Audit (NCA) will continue to update its information on EU financial management at the level of the EU as a whole and make this part of its report available in English for use (in full or in part) by other EU SAIs publishing a national report.

² For those seeking inspiration see Annex 2 for the draft Table of Contents of the NCA EU Trend Report 2005.

Other points for consideration are: -

- *Audit information relating to the national situation*

This section could initially be used to sketch an outline of financial management structures for each of the major EU funds a country is a recipient of or contributes to. This could be elaborated with more audit results to include the insight into and degree of regularity of the spending of EU funds. It is recommended that descriptive information be included to complete the picture and to allow for broader observations in the future, since systems of management and control in the different member states are sometimes very different. NB: the auditees are the national bodies at various administrative levels that manage/spend EU funds (and co-financing from the national budget), not the European Commission.

- *A common theme*

To strengthen the impact of the individual national reports, it is recommended that the co-operating SAIs agree each year on a common issue that will be addressed in parallel in all the national reports on EU financial management. For 2005 the recommendation is to focus specifically on the Structural Funds, where synergies are possible with work being carried out by the Working Group on Structural Funds in which 10 SAIs and the ECA participate.³

- *Indicators*

Given the periodic character of the national report on EU financial management, it is important to develop indicators that measure the changes in financial management and the degree of regularity of the use of EU funds.

5 Practical issues

Some practical issues that need to be dealt with are: -

- *Planning*

To make sure that the information is up to date and can be used by national parliament and/or government whilst preparing the Ecofin meeting for the budgetary discharge procedure, it is advisable to bring out the national report on EU financial management just after the publication of European Court of Audit's last Annual Report and before preparations for Ecofin within the relevant national parliamentary committee (if any). In practice this means publishing between December and February of the following year.

- *Clearance procedure*

It is advisable to arrange a clearance procedure with key national players (like the ministries of Finance and Foreign Affairs) on the draft report, even if the information contained in the report is not typical of other SAI reports. This will

³ Denmark, Finland, Germany (chair), Greece, Italy, the Netherlands, Portugal, Spain, the United Kingdom, Sweden and the ECA.

enhance the acceptance of the conclusions by government, increase baseline knowledge about the management of EU funds, and increase the value of working on a national report on EU financial management.

- *End user*

The answer to the questions to whom the national report should be addressed and who is responsible for undertaking action on the basis of its possible recommendations, is of course dependent on the specific aim and purpose of the report. In general there are two alternative approaches: a) the report is addressed to government and the respective ministers are responsible for taking action. In this case the report is also sent to national parliament where discussion of the report takes place between government and parliament; b) the report is addressed to national parliament, which uses the findings, conclusions and recommendations to hold government accountable. In order to build the commitment of the end user to the national report on EU financial management, it has proven useful to stress that the aim is to work towards a common goal - the improved management, control and accountability for EU funds.

- *Translation and distribution*

It would encourage co-operation among SAIs if each national report on EU financial management could be accompanied by at least an executive summary in English (including the main diagrams and tables of findings). For use and comparison by others and also to help SAIs learn from each other it would ideal if each participating SAI would translate its report fully into English and see to a broad distribution of their report both nationally and internationally.

- *Information sources*

Much EU information can be found on the internet (see Annex 3). With regard to sources of information at the national level, many EU SAIs use internal audit reports of the ministries they audit. Sometimes information can be found on the website of the decentralised government bodies administering EU funds (only in the Member State language[s]), but usually the EU websites are more informative. The national Permanent Representation in Brussels and officials at the ECA and other EU institutions can also be helpful in acquiring or crosschecking information.

6 Necessary resources

The resources necessary to carry out a national SAI report depend on the ambitions of the national SAI, which may vary (see Annex 4 for a description of experiences). If the national SAI already conducts EU related audits it would seem wise to use the expertise of the auditors active in this field in developing the national report on EU financial management, thus building up a specialised team for future work. An advantage of the recommended approach for producing such a

report is that it provides a platform for recycling other work already done by the national SAI on EU affairs.

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Similarly, a basic description of the financial management set up of the major EU funds should not be difficult and is probably already present with regard to those national funds cofinanced with EU expenditure. When developing a national SAI report it is important to start simple and expand the type and amount of information gradually.

AUDIT IMPACT OF A NATIONAL REPORT ON EU FINANCIAL MANAGEMENT

Denmark

The NAOD has produced Memorandums to the Parliament's Public Accounts Committee on the EU Accounts since the mid 1980's. The NAOD Memorandum to the Parliament's Public Accounts Committee on the EU Accounts has led to:

- 1) a higher level of information on the EU's financial management for the Parliament's Public Accounts Committee (PAC);
- 2) an exchange of information and cooperation concerning EU matters with the Ministry of Finance (which is responsible for cooperation and negotiation with EU);
- 3) an increasing interest and knowledge on EU financial management within the NAOD;
- 4) the PAC is now making (and it has for the last 3 years) the memorandum public.

Italy

The Italian 'Relazione Annuale' is sent to Parliament and the audited administrative bodies. It has led to:

- 1) by law required reactions from administrative bodies to the findings, recommendations, etc;
- 2) good impact on other stakeholders (private companies, associations of farmers, producers, etc.).

The Netherlands

The Netherlands Court of Audit EU Trend Reports of 2003 and 2004 have led to:

- 1) more attention in Dutch Parliament for EU financial management matters;
- 2) discussion of good governance/good accountability in the Dutch cabinet, which in turn led to proposals submitted to the European Convention and the EU Intergovernmental Conference in 2003;
- 3) initiatives taken by the Dutch Minister of Finance in the Ecofin Council to stimulate improved cooperation between the European Commission and the Member States in the field of financial management and reporting (a Dutch Declaration in the framework of the 2001 discharge procedure and the intention to pursue this item during the Dutch Presidency of the Council in the second half of 2004);
- 4) increased recognition of the NCA as an authoritative actor in the field.

The United Kingdom

The NAO Financial Management of the European Union reports have:

- 1) attracted considerable attention, both within Parliament and within the press;
- 2) assisted in the Parliamentary scrutiny during the House of Commons debate on the ECA Annual Report for 2002.