

Visit of the Oxford University Society of Luxembourg

European Court of Auditors

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EUROPEAN
COURT
OF AUDITORS



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Outline

1. The European Court of Auditors
2. The EU Budget
3. The Annual Report and Statement of Assurance
4. Special Reports
5. Gaps, overlaps & challenges: accountability & public audit
6. Improving performance in EU spending

1. The European Court of Auditors

Lima Declaration (1977) on auditing precepts

- **Management of public funds is a trust**

- **Audit aim: to reveal**
 - deviations from accepted standards
 - violations of the principles of legality
 - efficiency, effectiveness and economy

- **Early enough possibly to**
 - take corrective action
 - make those accountable accept responsibility
 - prevent such breaches in future - or make more difficult

Mexico declaration on Supreme Audit Institution Independence (2007)

1. Appropriate and effective constitutional/statutory/legal framework
2. Independence
3. Broad mandate
4. Unrestricted access to information
5. Right and obligation to report
6. Freedom to decide content and timing of reports
7. Effective follow-up
8. Financial and managerial autonomy and availability of resources

The European Court of Auditors

- **External auditor** of the EU
- Contributes towards **improving EU financial management**
- Independent guardian of the financial interests of EU citizens
- Around **900 staff**
- **Collegiate body, 28 members, 1 from each Member State**



ECA's place among EU institutions



European Council



European Court of Auditors

Types of audits

Financial audit

Reliability of the accounts

Compliance audit

Legality and regularity of underlying transactions

Performance audit

Value for money and financial management

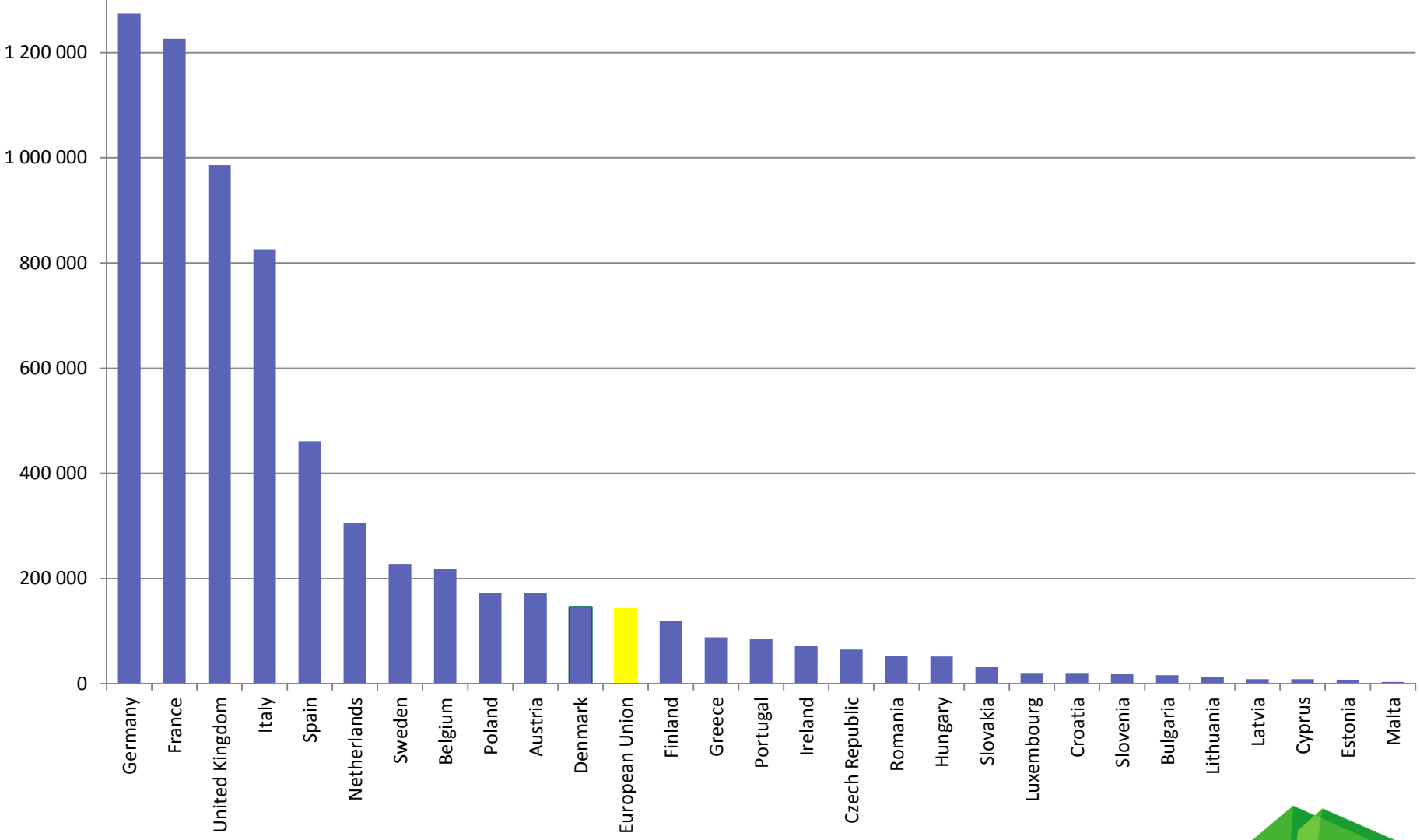
Annual Report

Special Reports

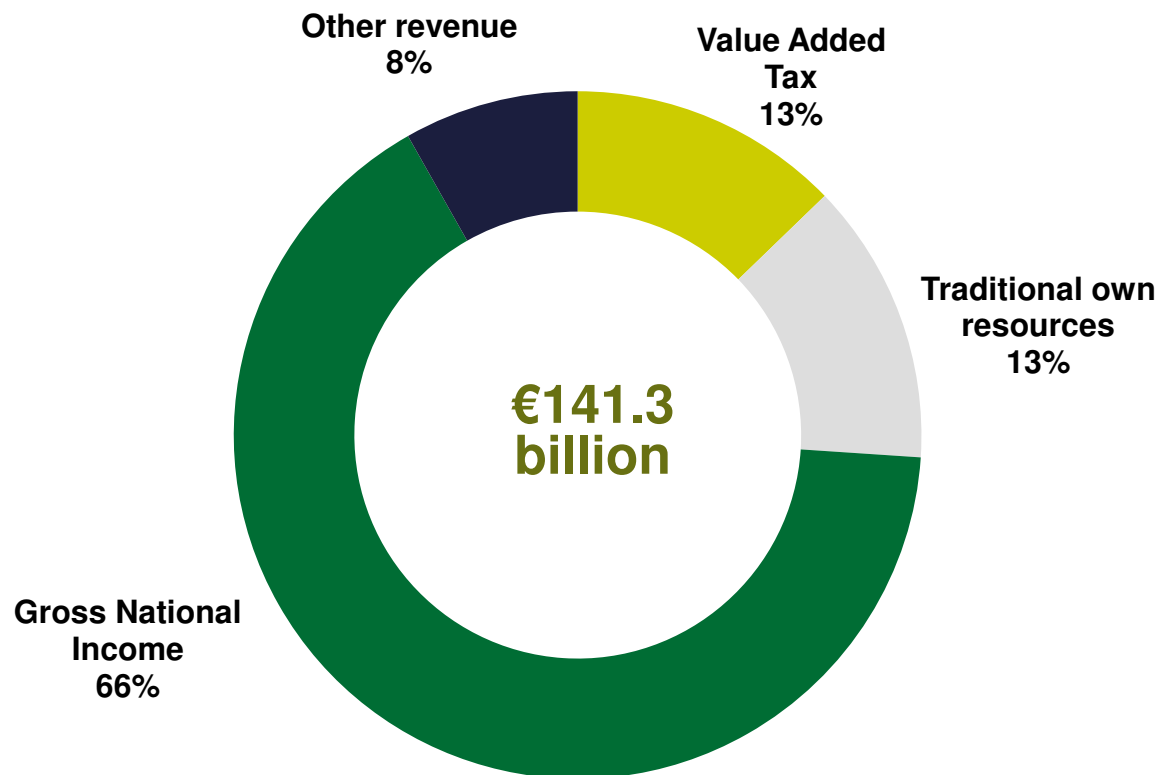


2. The EU Budget

Total general government expenditure of EU Member States and EU spending in 2014 (million euro)



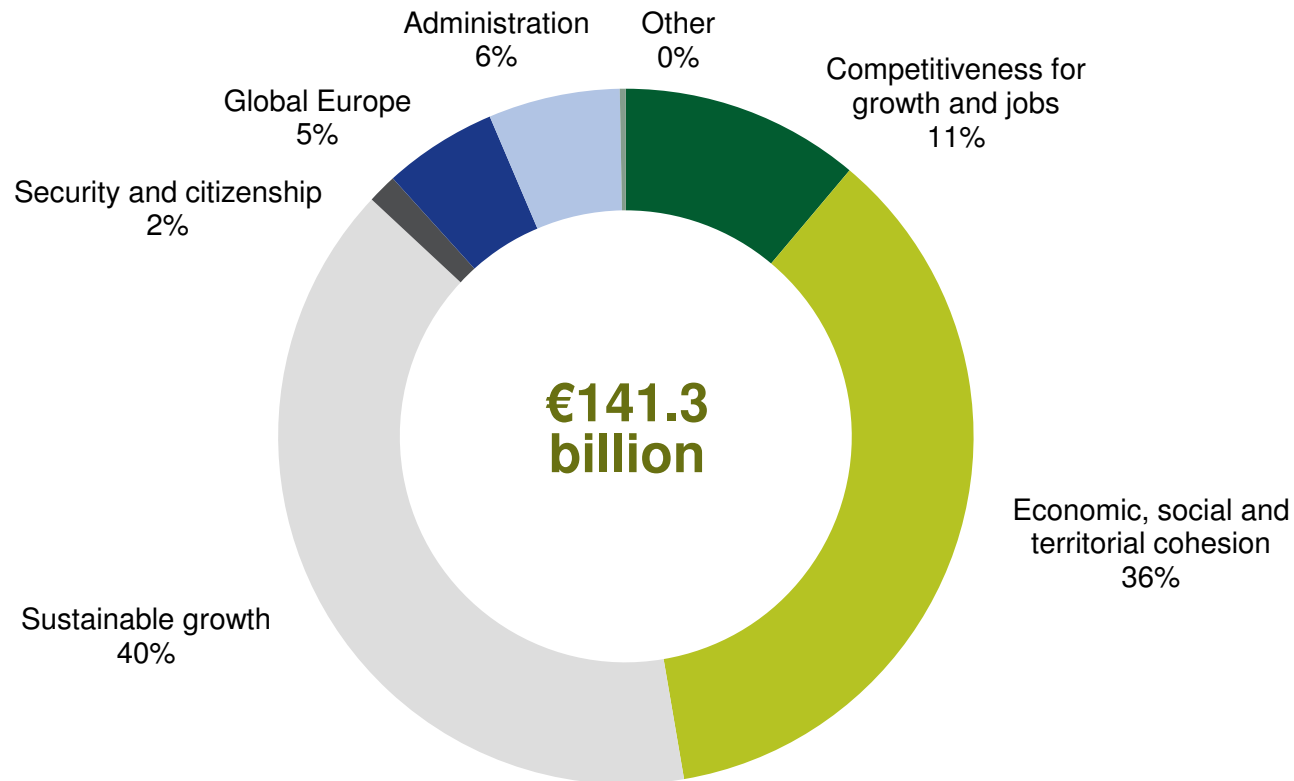
2015 EU budget: where does the money come from?



Total budget revenue in 2015 (source: DG Budget)

- € 141.3 billion
- £ 103.71 billion (ECB official exchange rate at 31 Dec 2015: 0.73395)

2015 EU budget: how the money is spent



Total budget expenditure in 2015 (source: DG Budget)

- € 141.3 billion
- £ 103.71 billion (ECB official exchange rate at 31 Dec 2015: 0.73395)

EU budget cycle - key features

- **Annual, calendar year**
- **Part of a Multi-annual Financial Framework (MFF)**
 - Current period 2014-2020, 7 years
- **Agreed by European Parliament (EP) and Council**
 - Based on a proposal from the Commission
- **Discharge = annual ex-post clearance decision**
 - ECA's Annual Report, key input and starts process

3. The Annual Report and Statement of Assurance

Key findings of the Annual Report 2014

- compliant with international public sector accounting standards (IPSAS)
- clean ECA opinion on the **reliability of the 2014 accounts**
- **revenue** for 2014, taken as a whole, is **legal** and **regular**
- **adverse opinion** on **legality** and **regularity of spending** in 2014
 - Estimated level of payment error is 4.4%
 - Similar to 2013 level (4.5%)
- Error is not necessarily **fraud** or **waste** – it is **mis-spending**
- Corrective action had positive impact on estimated level of error

How do we do the statement of assurance audit?

- **sample** around 1200 transactions drawn from across EU budget
- **follow the money** to the point of final use
- **calculate the impact of error** by extrapolating quantifiable errors
- **materiality**: compare the estimated level of error to 2% threshold
- **discuss all findings** with Member States

4. Special Reports

Special Reports: what are they?

- Focused investigations on specific policy areas
- Assessing **value for money**
- Ensuring funds are used:
 - Economically
 - Effectively
 - Efficiently

Special Reports: recently published

- Regional airports: poor value for money
- EU Emissions Trading Scheme (ETS)
- EU support against torture and the death penalty
- External migration spending to 2014
- 1st Technical Assistance package to Greece
- Internal energy market/Energy security

Special Reports: upcoming

- Nuclear Decommissioning in Lithuania, Bulgaria, and Slovakia
- Climate action: spending 1 in 5 EUR of the EU Budget
- Partnership Agreements in Cohesion
- Assistance to Ukraine
- Roma integration
- Maritime transport

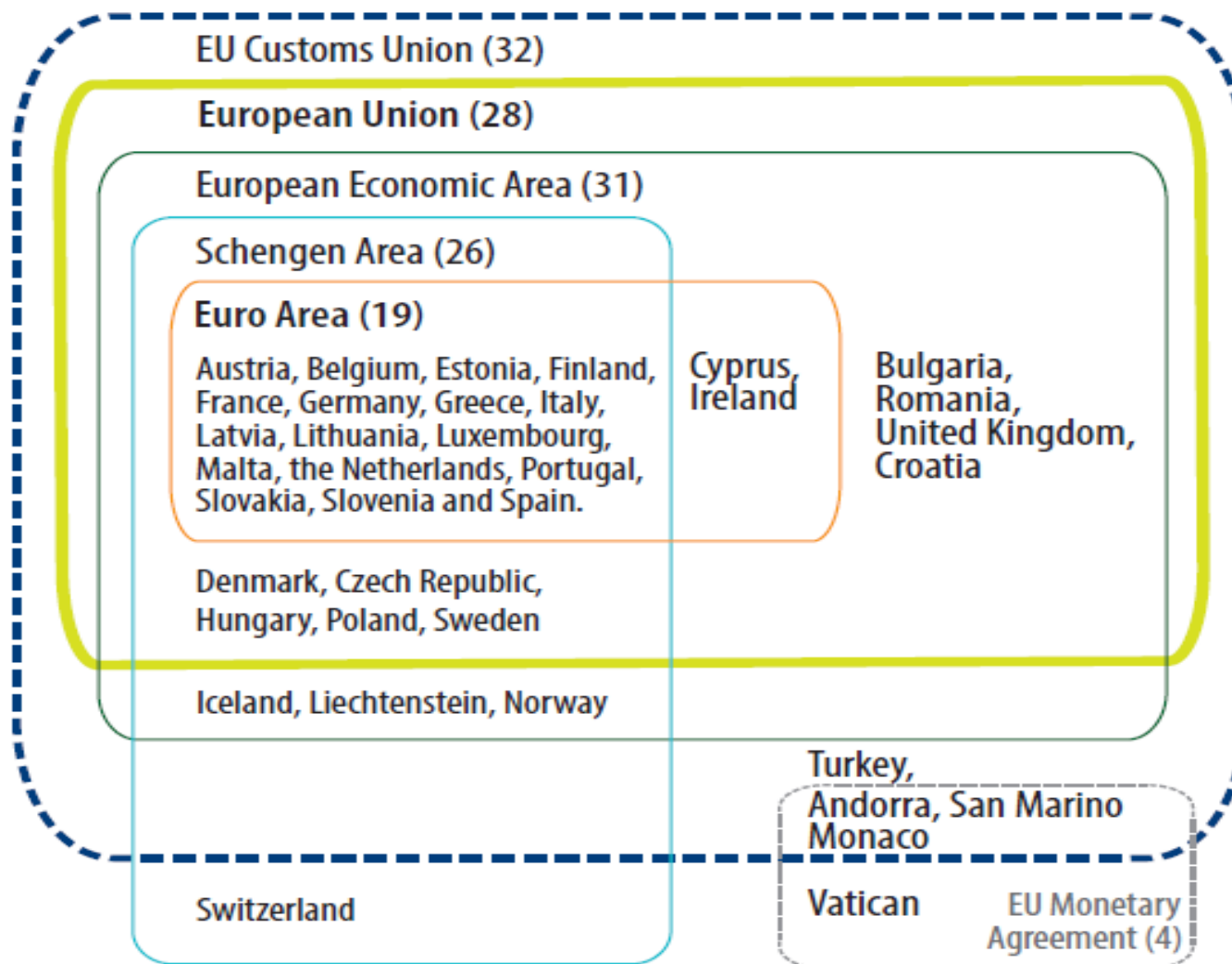
5. Gaps, overlaps & challenges: accountability & public audit

Landscape Review

Issues

1. EU and Member States coordination
2. Funds managed in partnership
3. EU multi-speed, variable policy architecture
4. EU set up, institutions and bodies
5. Financial and performance management
6. Performance: policy impacts and results

Multi-speed Union and third country cooperation



6. Improving performance in EU spending

Possible improvements

- **How is the new Commission responding?**
 - Commission's 'better regulation' initiative
 - Fewer legislative proposals in the initial programme of the Commission
 - Commissioner Georgieva's 'Budget for Results' initiative
- **Introduced in Multiannual Financial Framework 2014-2020:**
 - Agriculture: independent verification
 - Cohesion: net reductions possible
 - Performance frameworks - Partnership agreements

The ECA wants to see progress and will be auditing developments.

Complex performance framework

- **EU level** – strategic, legal and budgetary framework
- **Commission** – building blocks of a performance system
- **Shared management** (<80% of the budget)

Call for a 'wholly new approach' (I)

ECA President Caldeira called for a '**wholly new approach**' (10th Nov)

- EU faces major **long-term challenges**
 - jobs and economic growth
 - energy and climate
 - asylum, migration and security

- EU budget under **severe pressure**:
 - financial backlogs have built up
 - outstanding commitments fell 2014 but projected to increase 2015 and beyond
 - some Member States struggling to absorb EU funds allocated

- must strive to **do more with what is already in place**

Call for a 'wholly new approach' (II)

- so budget should be invested **better** and **more quickly**
- will require **substantive change** by all those responsible for EU funds
 - **Decision-makers** must:
 - align the budget better with long-term strategic priorities, **and**
 - make it more capable of responding in crisis
 - **Legislators** need to:
 - ensure results to be achieved by schemes are clear, **and**
 - be clear what risks acceptable for financial managers to take
 - **Financial managers** have to ensure that:
 - spending complies with the rules, **and**
 - intended results are achieved

Call for a 'wholly new approach' (III)

- All this **will take time**, but...
- **Mid-term review** an opportunity to re-think priorities and some scheme designs
- Need to see improved **transparency**:
 - Commission's long-term cash flow needs
 - results of EU spending
 - ways of funding EU policies not directly funded from the EU budget
- So that EU **invests its money better**:
 - investments that match EU priorities more closely
 - simpler rules, framed to achieve results
 - resources managed more efficiently

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