EN

2013

activity report

CURIA RATIONUM

EUROPEAN
COURT
OF AUDITORS

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Photo of the ECA building. Architect: Jim Clemes (2004 & 2013).

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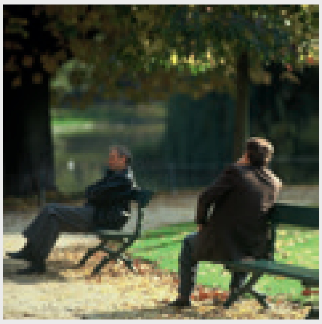
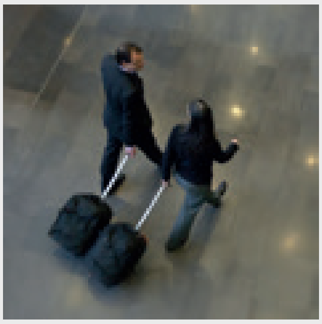




European Court of Auditors

Mission

The European Court of Auditors is the EU institution established by the Treaty to carry out the audit of EU finances. As the EU's external auditor, it contributes to improving EU financial management, promotes accountability and transparency and acts as the independent guardian of the financial interests of the citizens of the Union.

Vision

An independent and dynamic Court of Auditors, recognised for its integrity and impartiality, respected for its professionalism and for the quality and impact of its work and providing crucial support to its stakeholders in improving the management of EU finances.

Values

Independence, integrity and impartiality	Professionalism	Adding value	Excellence and efficiency
Independence, integrity and impartiality of the institution, its Members and staff. Auditing impartially while taking into account the views of stakeholders, but not seeking instructions or succumbing to pressure from any outside source.	Maintaining an exemplary standard of professionalism in all aspects of its work. Being involved in EU and worldwide public audit development.	Producing relevant, timely, high-quality reports, based on sound findings and evidence, which address the concerns of stakeholders and provide strong and authoritative messages. Contributing to effective improvement of EU management and to enhanced accountability in the management of EU funds.	Valuing individuals, developing talents and rewarding performance. Using effective communication to promote team spirit. Maximising efficiency in all aspects of work.

Contents

President's foreword

Dear reader,

2013 was an important year for the future of EU financial management. The European Union adopted the multiannual financial framework and legislation that will govern the way the EU budget is spent from 2014 to 2020.

During the year, the European Court of Auditors (ECA) produced **77 reports and opinions**. These outputs are the results of the ECA's financial, compliance and performance audit work.

They contain much important information and many recommendations relevant to improving EU financial management and accountability over the 2014 to 2020 programming period. A number of key messages are recalled in this annual activity report.

2013 was also an important year in the development of our institution. It marked the first year of our **new strategy for 2013 to 2017**, which will guide the ECA's activities over the period with the objective of maximising the value of its contribution to EU public accountability.

The strategy includes 10 key initiatives for putting the strategy into action that are to be completed by the end of 2014. Good progress was made on these initiatives in 2013. In particular, the ECA developed a **new work programming system** and underwent an independent **peer review** of its performance audit practice. The peer review team will publish its report in the first quarter of 2014.

In its continued response to the economic and financial crisis, in 2013 the EU adopted a Single Supervisory Mechanism (SSM) for banks, led by the European Central Bank (ECB), to strengthen economic and monetary union. This means an expanded role for the ECA in ensuring the accountability of the ECB in supervising credit institutions. This and other EU responses to the current financial and sovereign debt crisis involve a number of new legislative measures, overhaul of the supervisory system of the financial sector and massive international intervention to support the affected countries. In response to these new developments at EU level, the ECA decided to create a special project team in order to build up its capacity to audit the area of EU financial and economic governance.

To mark its **35th anniversary**, the ECA organised two events bringing together its Members, staff and stakeholders to highlight its preparations for the future. The first event was a **high-level conference** on European governance and accountability, addressed by the President of the European Council, Herman van Rompuy. The ECA also officially opened a **new building** at its premises in Luxembourg at a ceremony attended by Jean-Claude Juncker, at the time the Prime Minister of Luxembourg. The new building will promote team spirit by enabling all Members and staff to work together on one site.

Although the ECA is established in Luxembourg, its work takes its audit teams to wherever EU funds are spent in order to collect the evidence needed to produce the ECA's reports. The 2013 annual activity report gives an overview of audit visits and the reports produced. The ECA's audit of **EU support to the Palestinian Authority** is featured. It provides a colourful example of what it takes for the ECA to fulfil its mission, and it testifies to the commitment and professionalism of the ECA's staff, on whose expertise and hard work our institution and the citizens it serves can always depend.

Vítor Manuel da Silva Caldeira
President

2013 at a glance

Our activities

- **Annual reports** on the EU budget and on the European Development Funds (EDFs) for the 2012 financial year, providing improved clarity and information.

- Fifty **specific annual reports** published on the EU's agencies, decentralised bodies and other institutions for the 2012 financial year.

- Nineteen **special reports** adopted on specific budgetary areas or management topics, ranging from the EU's support for the food industry to EU development assistance in central Asia.

- Six **opinions and other output** providing contributions on budget reform, such as the reform of various EU funds, the financial regulation of the European Development Fund, the financial rules applicable to the EU budget and financial support for political parties and political foundations at the European level.

- Organisation of a **high-level conference** on European governance and accountability in the presence of the President of the European Council, Herman van Rompuy.

Our management

- First year of implementation of a **new strategy for 2013 to 2017** which will guide the ECA's activities over the period with the objective of maximising the value of the institution's contribution to EU public accountability.

- Further development of **staff policy** — the reduction of allocated posts and the continued redeployment of posts to core audit functions through efficiency gains in administration further strengthen the ECA's ability to pursue its mission.

- Official opening of the **K3 building** and consolidation of all staff on one site to promote even more efficient teamwork.

View of K3 building, part of the ECA's headquarters in Luxembourg.

Our activities

Audit reports and opinions

The European Court of Auditors has three main outputs.

- **Annual reports**, mainly containing the results of financial and compliance audit work on the European Union budget and EDFs. In addition, specific annual reports are published separately on the EU's agencies, decentralised bodies and other institutions.

- **Special reports**, published throughout the year, presenting the results of selected audits of specific budgetary areas or management topics. These are mainly performance audits and generally take over a year to complete.

- **Opinions** on draft legislation with an impact on financial management, and **statements and position papers** on other issues at the ECA's own initiative.

After a very intense year in 2012, the ECA again produced a high number of specific annual reports and special reports in 2013. The annual reports provide an increased level of analytical information and the presentation of results has been improved, allowing easier comparison between areas and over time.

Number of reports and opinions	2008	2009	2010	2011	2012	2013
Annual reports on EU budget and EDFs	2	2	2	2	2	2
Specific annual reports on EU agencies and decentralised bodies	29	37	40	42	50	50
Special reports	12	18	14	16	25	19
Opinions and other output	5	1	6	8	10	6
Total	48	58	62	68	87	77

The full text of all audit reports and opinions is available on the ECA's website (http://eca.europa.eu) in 23 EU languages.

2013 audit visits

While the vast majority of audit work is undertaken at the ECA's premises in Luxembourg, auditors also make visits to Member State authorities and other recipients of EU funds (including the headquarters of international organisations, such as the UN in Switzerland). The purpose of these visits is to obtain **direct audit evidence**.

Audit visits are usually to central and local **authorities** involved in the processing, management and payment of EU funds and to the **final beneficiaries** who receive them.

Audit visits within the EU are often made in liaison with the supreme audit institutions of the Member States concerned. Audit teams generally comprise two or three auditors, and visits can range in length from a few days to 2 weeks, depending on the type of audit and travelling distance.

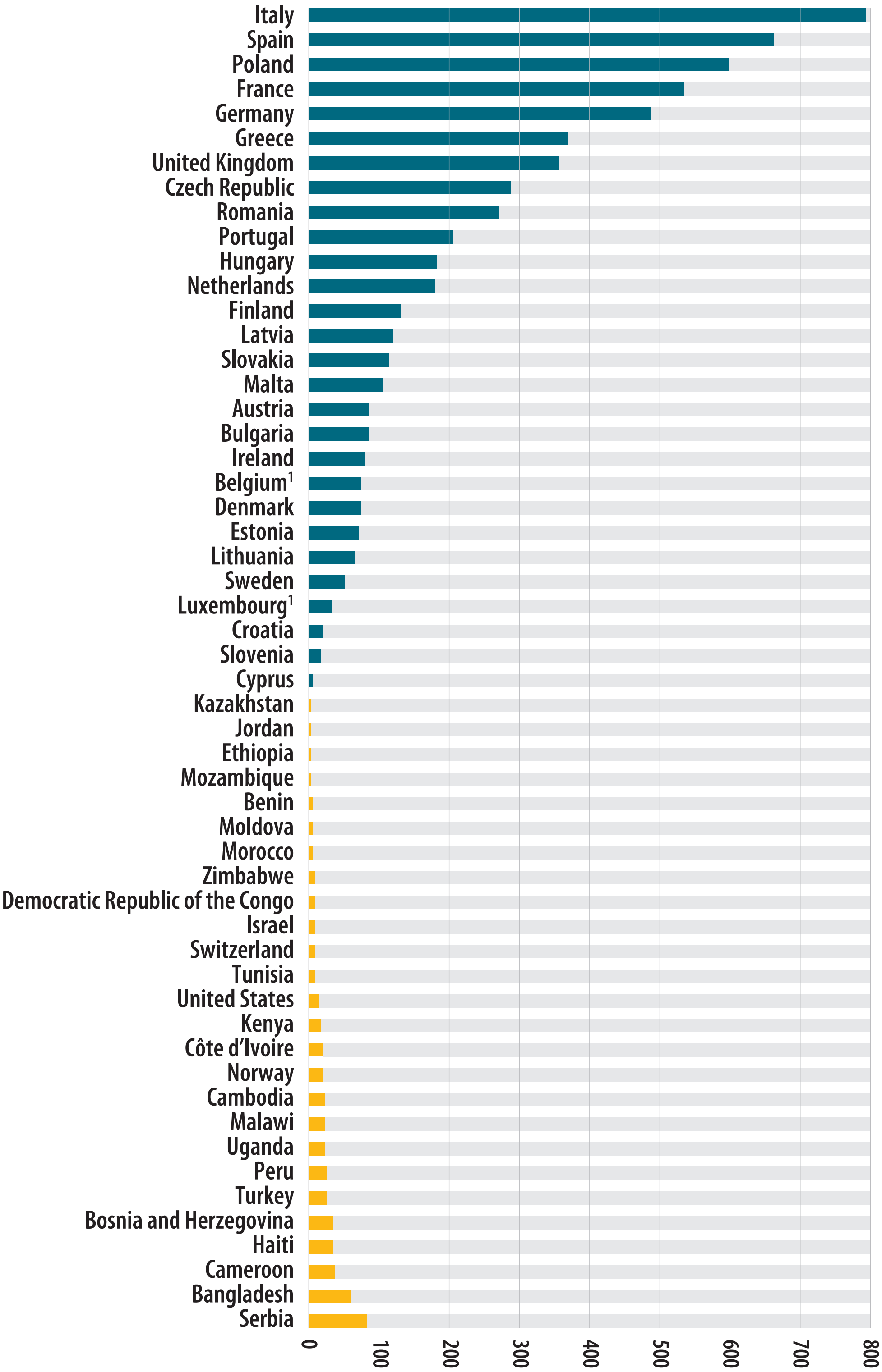
The frequency and intensity of audit work in individual Member States and beneficiary countries depend on the type of audit and the results of sampling. The number and length of audit visits can therefore vary between countries and from year to year.

In 2013, the ECA's auditors spent 6 619 days auditing on the spot — 6 079 in Member States and 540 outside the EU — obtaining evidence for annual, specific annual and selected audit tasks. A comparable amount of time was spent at the EU institutions and bodies in Brussels and Luxembourg.

EU auditors travelling by motorcycle convoy to get from project to project.

EU auditors spent
6 619 days
auditing on the spot

2013 on-the-spot audit days



[1] This figure does not include audit visits to the many EU institutions, agencies and other bodies headquartered in Brussels and Luxembourg.

Annual report on the implementation of the 2012 EU budget

During 2013, the ECA carried out most of its financial and compliance audit work on the implementation of the 2012 EU budget. The resulting **2012 annual report** was published on 5 November 2013.

The **objective** of the annual report is to provide findings and conclusions that help the European Parliament, Council and citizens to assess the quality of EU financial management, as well as to make useful recommendations for improvement. Central to the 2012 annual report was the 19th annual statement of assurance (or 'DAS') on the reliability of the EU's accounts and the regularity of the transactions underlying them.

For the 2012 annual report, the approach to sampling transactions was **updated** so as to examine all transactions on the same basis for all spending areas — at the point at which the Commission has accepted and recorded expenditure. This is expected to result in the audited populations being **more stable from year to year** by eliminating the effect of fluctuating levels of advance payments. The effect of this standardisation of the ECA's sampling approach was a 0.3 percentage point impact on its estimated error rate for the 2012 budget as a whole.

EU auditor checking a drip irrigation system on a farm.

The key messages of the 2012 annual report

- The **consolidated accounts of the EU present fairly**, in all material respects, the financial position of the Union, the results of its operations, its cash flows and the changes in net assets as at 31 December 2012.
- The estimated **error rate for spending from the EU budget as a whole increased again in 2012, from 3.9 % to 4.8 %**. The estimated **error rate has increased every year since 2009**, after having fallen in the three previous years.
- Rural development, environment, fisheries and health remained the **most error-prone spending area** with an estimated error rate of 7.9 %, followed by regional policy, energy and transport with an estimated error rate of 6.8 %.
- The **increases in the estimated error rate were greatest for the spending areas** employment and social affairs, agriculture: market and direct support, and regional policy, energy and transport.
- For the majority of transactions affected by error in shared management areas (e.g. agriculture and cohesion), the **Member State authorities had sufficient information available** to have detected and corrected the errors.
- The substantial gap between appropriations for commitment and payment, coupled with a large amount of underspending at the start of the current programming period, caused a build-up of the equivalent of 2 years and 3 months' worth of unused commitments (€217 billion at the end of 2012). This leads to **pressure on the budget for payments**. To resolve that situation, it is essential that the Commission plan its payment requirements for the medium and long term.
- For many areas of the EU budget the legislative framework is complex and there is insufficient **focus on performance**. The proposals on agriculture and cohesion for the 2014–20 programming period remain fundamentally input based (expenditure oriented) and therefore still focused on compliance with the rules rather than performance.

4.8 %
estimated error rate in EU budget

Annual report on the European Development Funds for 2012

The European Development Funds (EDFs) are funded by EU Member States but managed outside the framework of the EU budget and governed by their own financial regulations. The European Commission is responsible for the financial implementation of operations funded with resources from the EDFs.

The EDFs provide European Union assistance for development cooperation to the African, Caribbean and Pacific (ACP) states and overseas countries and territories (OCTs), based on the Cotonou Agreement of 2000. Spending is centred on the objective of reducing and eventually eradicating poverty, and is consistent with the objectives of sustainable development and the gradual integration of the ACP countries and OCTs into the world economy. It is based on the three complementary pillars of development cooperation, economic and trade cooperation and a political dimension.

The ECA's 2012 annual report on the EDFs was published, alongside that on the EU budget, on 5 November 2013. It contained the 19th statement of assurance on the EDFs.

The ECA found that the 2012 accounts fairly present the financial position of the EDFs and the results of their operations and cash flows. The ECA estimated a most likely error rate of 3.0 % on EDF expenditure transactions for the 2012 financial year, a decrease from 5.1 % for 2011.

Specific annual reports on the EU agencies, decentralised bodies and other institutions for 2012

In 2013, the ECA published 50 specific annual reports for the 2012 financial year on the EU agencies, decentralised bodies (such as joint undertakings) and other institutions. They are available on the ECA's website (*http://eca.europa.eu*). Following a Council request, the ECA prepared two summaries — one on the 2012 annual audits of the European agencies and other bodies and the other on the European research joint undertakings. These two summary documents facilitating analysis and comparison were presented to the president of the European Parliament, the Committee on Budgetary Control (CONT) and the General Affairs Council.

EU agencies and decentralised bodies are created by EU legislation to undertake specific tasks. Each agency has its own mandate, board, director, staff and budget. Agencies are located throughout the EU and are active in many areas, such as safety, security, health, research, finance, migration and travel. Whereas financial risk related to the agencies and joint undertakings is relatively low compared to the total EU budget, the reputational risk for the Union is high: agencies are highly visible in the Member States and they have significant influence on policy- and decision-making and programme implementation in areas of vital importance to European citizens.

50
specific annual reports for 2012

All 40 agencies and other bodies received unqualified opinions on the reliability of their 2012 accounts. The transactions underlying these accounts were legal and regular in all material respects for all but two agencies and other bodies. The ECA issued a qualified opinion for the EIT (European Institute of Innovation and Technology) and a disclaimer to its opinion for Frontex (European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the European Union).

All seven joint undertakings produced reliable accounts for 2012, but three received qualified opinions from the ECA in respect of the legality and regularity of the transactions underlying them: ENIAC (Nanoelectronics), Artemis (Embedded Computing Systems) and IMI (Innovative Medicines Initiative).

European Environment Agency, Copenhagen, Denmark.

Special reports in 2013

In addition to its annual reports and specific annual reports, the ECA publishes **special reports** throughout the year covering performance and compliance audits of specific budgetary areas or management topics of its choice. The ECA selects and designs these audit tasks to be of maximum impact, thereby making best use of its resources. Selected audits are substantial and complex tasks and generally take substantially more than a year to complete (the target being 18 months).

When selecting topics, the ECA considers:

- the **risks** to performance or compliance for the particular area of revenue or expenditure;
- the **level** of income or spending involved;
- the **time** elapsed since any previous audit;
- forthcoming **developments** in the regulatory frameworks; and
- political and public **interest**.

19
special reports adopted in 2013

The main steps in a selected performance or compliance audit

Preliminary study	Determines the utility and feasibility of the audit proposal.
Audit planning	Sets out the scope, objectives, approach, methodology and timetable of the audit.
Field work	Multidisciplinary teams collect evidence on the spot at Commission headquarters and in Member and beneficiary States.
Analysis of findings	Confirm facts with auditees and use evidence to draw conclusions on audit objectives.
Report drafting	Clear, structured presentation of main findings and conclusions. Preparation of recommendations.
Clearance	Clearance of the report with the auditee.
Adoption	Adoption of the report.
Publication	Publication of the special report in 23 official languages, with the replies of the auditee.

Brief summaries of the 19 special reports adopted by the ECA in 2013 are presented over the next few pages under the related heading of the financial framework — the multiannual budget of the EU.

All special reports are published in full on the ECA's website (http://eca.europa.eu) and through the EU bookshop in 22 EU languages (23 in the case of reports adopted after the accession of Croatia).

Sustainable growth

Sustainable growth is aimed at growth and jobs, and covers two areas.

Competitiveness includes funding for research and technological development, connecting Europe through EU networks, education and training, promoting competitiveness in a fully integrated single market, the social policy agenda and nuclear decommissioning. The EU expenditure earmarked for competitiveness for growth and employment for 2007–13 amounted to €89.4 billion, or 9.2 % of the EU budget, with close to two thirds devoted to research and development.

Cohesion for growth and jobs mainly concerns cohesion policy, which is implemented through funds covering defined areas of activity, including the European Social Fund (ESF), the European Regional Development Fund (ERDF) and the Cohesion Fund (CF). The funds are spent under shared management by the Commission and the EU Member States. The EU's cohesion expenditure planned for 2007–13 was €348.4 billion, or 35.7 % of the total EU budget.

During 2013, the ECA adopted the following special reports in this area.

- **Implementation of the seventh framework programme for research** (2/2013) — assessed whether the Commission has ensured efficient implementation of FP7. The audit covered the rules for participation, the Commission's processes and the setting up of two new instruments, and its results are likely to be useful not only for the remaining period of FP7, but also for the operational setup of the next research framework programme — Horizon 2020. The ECA concluded that the Commission has introduced a number of simplifications to the FP7 rules for participation and that it has been able to align FP7 provisions with beneficiaries' practices in some cases, but more needs to be done in the future. The Commission's management of FP7 is strong in three areas — process design, improvement activities and management information — but less so in tools and resources.

Processing times for awarding grants have become shorter, but they did not come down to 9 months until 2012. The audit highlighted good practices on how to further shorten time-to-grant. Quality controls on the selection and follow-up of projects function well. However, the FP7 financial control model does not sufficiently take into account the risk of errors. This means that low-risk FP7 researchers are subject to too many controls.

FP7 is one of the EU's key instruments for funding research. It aims to strengthen industrial competitiveness and to meet the research needs of other EU policies. It covers the period 2007–2013 and has a total budget of more than €50 billion. The vast majority of the budget is spent by the Commission or its executive agencies in the form of grants.

- **Have the Marco Polo programmes been effective in shifting traffic off the road?** (3/2013) — assessed whether the Commission had planned the programmes, and was managing and supervising them, in such a way as to maximise their effectiveness, and whether the funded projects were effective. The audit work focused mainly on the programme level by analysing impact assessments, evaluations and survey results, reviewing evaluations of project proposals, conducting desk reviews of the monitoring of signed grant agreements and surveying Marco Polo programme (MP) committee members on national support schemes. The audit found not enough relevant project proposals were put forward because the market situation and the programme rules discouraged operators from taking advantage of the scheme. Half of the audited projects were of limited sustainability. One of the main findings of the audit was that there were serious indications of 'dead weight' — projects which would have gone ahead even without EU funding.

  Since 2003, the Marco Polo I and II programmes have financed transport service projects designed to shift freight transport from road to rail, inland waterways and short sea shipping. The programmes have been part of the EU transport policy objective to develop alternatives to road-only freight transport. This generally accepted objective aims to reduce international road freight traffic, thereby improving the environmental performance of freight transport, reducing congestion and increasing road safety.

Marco Polo encourages the use of short sea shipping.

- **Are EU cohesion policy funds well spent on roads?** (5/2013) — assessed whether EU cohesion policy road infrastructure projects have achieved their objectives at a reasonable cost. The audit looked at 24 co-financed road projects in Germany, Greece, Poland and Spain, whose total value exceeded €3 billion. These four Member States had the highest allocations of cohesion policy funding for roads in the 2000–13 period, representing approximately 62 % of all EU road co-financing. The audit covered motorways (10 projects), express roads (10 projects) and ordinary two-lane trunk roads (four projects). The audit found that all the projects audited added capacity and quality to the road networks and resulted in travelling-time savings and improved road safety. However, the economic development objectives were not measurable and there is no information available on the impact of the projects on the local or national economy. The actual economic viability — calculated using a cost–benefit ratio based on actual cost and use — was significantly lower for half of the projects when compared to the assumptions made (significantly lower costs and/or more traffic) in the planning phase. The auditors found that, because of over-optimistic traffic forecasts, the average cost per km of the audited road projects, in relation to the annual volume of traffic, was four times higher in Spain than in Germany, with Poland and Greece in between these two extremes. The type of road chosen was often not best suited to the traffic it carried; motorways were preferred in cases where express roads, which are 43 % cheaper, could have solved the traffic problems. The ECA recommended that Member States ensure international competition on construction projects and focus their procurement systems on delivering the cheapest bids.

  The EU allocated around €65 billion from the European Regional Development Fund (ERDF) and Cohesion Fund to co-financing the construction and renovation of roads from 2000 to 2013.

- **Has the European Globalisation Adjustment Fund delivered EU added value in reintegrating redundant workers?** (7/2013) — assessed whether the European Globalisation Fund (EGF) contributed effectively to enabling redundant workers to return to the labour market as soon as possible. The auditors found that most eligible workers were offered personalised and well-coordinated assistance, but that all the audited cases included income support measures which would have been paid by the Member States anyway. Income support represented 33 % of the reimbursed costs in all the cases examined. In addition, no adequate data existed to measure how effective the funds were in getting laid-off workers back into jobs.

  The EGF was designed to address short-term and ad hoc emergency situations. Support includes training, aid for self-employment, coaching and outplacement. The fund co-finances measures at a rate of 50 % or 65 %, with the balance being provided by the Member State concerned. Between March 2007 and December 2012, the EGF paid out over €600 million to workers who had lost their jobs in mass redundancies caused by shifting patterns in world trade.

The EGF supports workers who have lost their jobs.

- **Taking stock of 'single audit' and the Commission's reliance on the work of national audit authorities in cohesion** (16/2013) — assessed the extent to which the Commission is able to rely, in the area of regional policy, on the work of national audit authorities for its own assurance, and took stock of the Commission's implementation of the 'single audit' model up to the end of 2012. In particular, the ECA examined whether the Commission had made proper use of the information provided by national audit authorities and ensured a consistent audit approach through its guidance and support of audit authorities. The EU auditors also analysed the costs of the reinforced audit arrangements introduced in the 2007–13 programming period.

  'Single audit' aims at preventing the duplication of control work and reducing the overall cost of control and audit activities at the level of the Member States and the Commission. It also aims at decreasing the administrative burden on auditees. The ECA estimates that around €860 million was spent on auditing EU regional policy by Member States during the 2007–13 period. This corresponds to 0.2 % of the total regional policy budget.

Preservation and management of natural resources

The EU has extensive policy responsibility for agriculture and rural development, fisheries and the environment. Planned expenditure for 2007–13 was €413.1 billion, representing 42.3 % of the total EU budget.

Three quarters of the spending involves direct payments to farmers and support for agricultural markets through the European Agricultural Guarantee Fund (EAGF) — the 'first pillar' of the common agricultural policy (CAP). A further fifth of spending goes to EU support for rural development, which is financed from the European Agricultural Fund for Rural Development (EAFRD), the 'second pillar' of the CAP. Agriculture and rural development are under shared management by the Commission and Member States.

During 2013, the ECA adopted the following special reports in this area.

- **Has the EU support to the food-processing industry been effective and efficient in adding value to agricultural products?** (1/2013) — assessed whether the measure was designed and implemented in a way that provided for the efficient funding of projects addressing clearly identified needs and whether the measure was monitored and evaluated in a way that allowed its results to be demonstrated. The ECA found that the projects mostly improved the financial performance of the companies concerned and that a number of the projects audited may result in some added value. This, however, could not be attributed to the design of the measure or the selection procedures used by the Member States. There was a lack of evidence to demonstrate that the companies aided needed a subsidy, or it was unclear which specific policy objectives the subsidy was expected to achieve. The ECA concluded that the support had not been systematically directed to projects that effectively and efficiently added value to agricultural products.

  Under the CAP, EU rural development policy grants are made available to enterprises processing and marketing agricultural products through a measure called 'Adding value to agricultural and forestry products' that aims to improve the competitiveness of agriculture and forestry.

  The EU budget had earmarked €5.6 billion in aid for 2007–13. This financing was complemented by national spending, bringing the total public funding to €9.0 billion.

- **Have the Member States and the Commission achieved value for money with the measures for diversifying the rural economy?** (6/2013) — assessed whether the measures were designed and implemented in such a way as to make an effective contribution to growth and jobs and whether the most effective and efficient projects were chosen for financing. The ECA also assessed whether the available monitoring and evaluation information provided reliable, complete and timely information on the outcomes of the measures. The audit found that that overall the Commission and the Member States have achieved only limited value for money through the measures for diversifying the rural economy, as the aid was not systematically directed to the projects that were most likely to achieve the purpose of the measures.

  EU rural development spending for diversifying the rural economy is intended to address identified problems in rural areas such as depopulation, scarcity of economic opportunities and unemployment. It provides funding to people and rural businesses for projects to help support growth, employment and sustainable development. Planned EU expenditure for these measures was €5 billion for the 2007–13 period.

- **Support for the improvement of the economic value of forests from the European Agricultural Fund for Rural Development** (8/2013) — assessed whether rural development support for the improvement of the economic value of forests is managed efficiently and effectively. The audit covered both the Commission and selected Member States — Spain (Galicia), Italy (Tuscany), Hungary, Austria and Slovenia — accounting for more than 50 % of the total expenditure declared. The audit found weaknesses in the design of the measure which significantly hindered its successful implementation: at the Commission level, the situation in the forestry sector in the EU was not specifically analysed so as to justify the proposal of specific financial support for improving the economic value of forests belonging to private owners or municipalities. Furthermore, key features of the measure were not defined in the legal provisions, particularly the meaning of 'economic value of forests' and 'forestry holding'. Member States set very different sizes of forest holdings above which a forest management plan was required.

The ECA found that only a few of the audited projects significantly improved the economic value of the forests, by improving either the value of the land (building of forest tracks and roads) or the value of timber stands (silvicultural operations like pruning or thinning).

The total amount allocated for the measure was €535 million in the 2007–13 period.

Forests and woodland account for 40 % of the total EU land area.

- **Common agricultural policy: Is the specific support provided under Article 68 of Council Regulation (EC) No 73/2009 well designed and implemented?** (10/2013) — assessed whether the introduction of the support provided for in Article 68 and the way it was implemented in 2010 and 2011 (management and control arrangements) were consistent with the common agricultural policy (CAP), necessary, relevant and backed by a satisfactory control system. The audit found that the framework put in place to ensure that this support would only be provided in clearly defined cases was insufficient. The Commission had little control over the justification for such cases and Member States had a large degree of discretion in making these payments. For the most part, the Commission could take no legally binding action, and the Member States' only obligation was to notify the Commission of the decisions they took. As a result, the implementation of Article 68 was not always fully aligned with the CAP and there was insufficient evidence that the measures introduced were always necessary or relevant in terms of needs, effectiveness and levels of available aid. The audit also revealed that the implementation of the support measures under Article 68 was affected by various shortcomings, such as weaknesses in the administrative and control systems that had been set up to ensure that existing measures were correctly implemented. This was equally true of the systems of management, administrative controls and on-the-spot checks, sometimes despite management and already heavy control burdens.

  Following the introduction of the Single Payment Scheme in 2003, Member States were allowed to earmark up to 10 % of their national CAP ceilings for specific support and, notably, to continue to apply certain production-linked support measures for farmers. This specific support was extended by Article 68 of Regulation (EC) No 73/2009, which increased the number of objectives or activities for which aid could be granted. The total budget for the 2010–13 period was €6.4 billion.

- **Can the Commission and Member States show that the EU budget allocated to the rural development policy is well spent?** (12/2013) — assessed whether there are clear statements on what rural development expenditure is intended to achieve and whether there is reliable information showing what the expenditure has achieved and how efficiently it has done so. A key element for this is a system of monitoring and evaluation, also referred to as the common monitoring and evaluation framework. The audit concluded that the Commission and Member States have not sufficiently shown what has been achieved in relation to the rural development policy objectives, and that there is a lack of assurance that the EU's budget for rural development has been well spent.

  The EU allocated almost €100 billion to achieving rural development objectives in the 2007–13 financial period. Member States also committed €58 billion of national resources to co-finance their rural development programmes (RDPs). Member States develop RDPs. Once approved by the Commission, these programmes are implemented by the Member States.

- **Has the 'Environment' component of the LIFE programme been effective?** (15/2013) — assessed whether the design and implementation of the 'Environment' component contributed to programme effectiveness. In auditing projects funded between 2005 and 2010, the EU auditors visited the relevant Commission departments and five Member States from among the largest beneficiaries of LIFE (Germany, Spain, France, Italy and the United Kingdom), representing 55 % of the LIFE budget and 15 % of its projects. The ECA found that, overall, the LIFE 'Environment' component was not operating effectively because it was not sufficiently well designed and implemented.

  The current LIFE programme has an average annual budget of €239 million — less than 1.5 % of estimated overall environmental expenditure by the EU — for financing projects. This is a modest budget for an ambitious objective: to contribute to the development, updating and implementation of EU environmental policy and legislation. Almost 50 % of this budget, or €120 million, is devoted to the LIFE 'Environment' component. The remaining half finances the other two components — LIFE 'Nature' and LIFE 'Information'.

- **Reliability of the results of the Member States' checks of the agricultural expenditure** (18/2013) — assessed the reliability of the Member States' statistical reports containing the results of their administrative and on-the-spot checks. Member State paying agencies carry out administrative checks on aid applications in order to verify their eligibility. They also carry out on-the-spot checks of a sample of applicants. Errors detected give rise to reductions in the amount of aid payable to the applicant. Member States annually report the results of these checks to the Commission, and on this basis the Commission calculates a residual error rate which estimates the irregularities present in the payments after all checks have been carried out. The statistical validity of the residual error rate was included in the scope of the audit. This and previous audits by the ECA, as well as the Commission's audits, show that the systems in place for administrative and on-the-spot checks are only partially effective, thus seriously undermining the reliability of the information Member States provide to the Commission.

  The Commission shares responsibility for implementing the CAP with the Member States. Agricultural expenditure is thus administered and paid out by national or regional paying agencies which report to the Commission. Independent certification bodies appointed by the Member States certify to the Commission the annual accounts of paying agencies and the quality of the control systems the agencies have put in place.

EU as a global player

The EU's activities in the field of external relations focus on enlargement, enhancing the stability, security and prosperity in its neighbourhood, working actively to support sustainable development at the international level and measures to promote global political governance and ensure strategic and civilian security.

The EU earmarked €55.9 billion for spending on these objectives for the 2007–13 period, representing 5.7 % of the total budget. Most spending is managed directly by the Commission, either from its headquarters or through its delegations. Some aid is also jointly managed with international organisations.

During 2013, the ECA adopted the following special reports in this area.

- **EU cooperation with Egypt in the field of governance** (4/2013) — assessed whether the European Commission and the European External Action Service (EEAS) effectively managed EU support to improve governance in Egypt before and after the 2011 uprising. Overall, the EEAS and the Commission have not been able to manage effectively EU support to improve governance in Egypt. Before the uprising, even though the Commission included a large number of human rights and democracy issues in the European neighbourhood policy (ENP) EU–Egypt action plan, it was unable to achieve any progress. Despite the considerable funding provided through budget support, this instrument has not been effective in promoting public finance management. Lack of budgetary transparency, an ineffective audit function and endemic corruption are major weaknesses in Egypt that still need to be tackled. After the uprising, the ENP review failed to strongly emphasise women's and minority rights.

  For the 2007–13 period, approximately €1 billion in aid was allocated by the EU to Egypt. As more than half of this amount was channelled through Egypt's treasury, using the aid mechanism known as budget support, considerable reliance was placed on the country's public financial management.

- **European Union direct financial support to the Palestinian Authority** (14/2013) see 'A performance audit in focus'.

Girls at school in Egypt.

A performance audit in focus

European Union direct financial support to the Palestinian Authority


Hospital in Gaza where doctors were direct beneficiaries of Pegase DFS.

The world's eyes have been drawn to the Palestinian–Israeli peace process for many years. The European Union is no exception. As one of the key global players in the region, the EU provides significant assistance to the occupied Palestinian territories. It has spent more than €5.6 billion since 1994 to support its overall objective of helping to bring about a two-state solution to end the Israeli–Palestinian conflict. Since 2008, its largest programme in the occupied Palestinian territories has been Pegase direct financial support (DFS), which provided approximately €1 billion in funding from 2008 to 2012. The programme seeks to help the Palestinian Authority (PA) to meet its obligations to civil servants, pensioners and vulnerable families, maintain essential public services and improve public finances.

The ECA undertook a performance audit of this support. The auditors carried out their work between 1 July and 31 December 2012 and gathered evidence through documentary review, interviews and, most importantly, by travelling to East Jerusalem, the West Bank (Ramallah, Nablus, Jericho and Tulkarem) and Gaza to conduct interviews at the office of the EU representative with individual beneficiary institutions and representatives of the PA, international donors, audit firms and local businesses. The auditors also met with individual teachers, doctors and vulnerable families who were direct beneficiaries of Pegase DFS. The specific environment put the auditors in challenging situations where they experienced delays, needed specific security clearance and were transported in armoured vehicles accompanied by armed security.

The objective of the audit was to assess how well Pegase DFS to the PA had been managed by the European External Action Service (EEAS) and the Commission. The audit focused on the design and implementation arrangements, the results achieved and their sustainability.

The auditors reached the conclusion that the Commission and EEAS succeeded in implementing direct financial support to the PA under difficult circumstances, but that a number of aspects of the current approach were increasingly in need of a major overhaul, in particular because sustainability was in doubt. The ECA considers that the PA must be encouraged to undertake more reforms, notably in relation to its civil service. At the same time, a way needs to be found to further engage Israel and for it to take the necessary steps to help ensure the effectiveness of Pegase DFS.

While the programme has made a significant contribution to covering the PA's salary bill, the increasing number of beneficiaries and declining funding through Pegase DFS from other donors led to serious delays in the payment of salaries in 2012, which provoked unrest among the Palestinian population.

Pegase DFS has contributed to essential public services, but a considerable number of civil servants in Gaza, due to the political situation, were being paid without actually attending work or providing any sort of public service. The Commission and EEAS have not sufficiently addressed this problem.

Despite the magnitude of Pegase DFS funding, the PA faced a severe budget deficit in 2012 which also threatened to erode public finance management reforms. Ultimately, the threat to the financial sustainability of the PA can, to a considerable degree, be traced to the manifold obstacles raised by the government of Israel to the economic development of the occupied Palestinian territories, which thus also undermine the effectiveness of Pegase DFS.

Based on these findings, the ECA made a series of recommendations to the EEAS and Commission. These included strengthening the programming of future Pegase DFS, reducing administrative costs by using competitive tendering for contracts relating to the management and control of Pegase DFS, simplifying the Pegase DFS management system, applying conditionality to future Pegase DFS (specifically by linking it to concrete progress by the PA on civil service reform and public finance management reform) and discontinuing funding of salaries and pensions from Pegase DFS for civil servants in Gaza and redirecting them to the West Bank.

Finally, the ECA recommended that the EEAS and Commission, in conjunction with the broader donor community, should further engage Israel, within the framework of broader EU–Israeli cooperation, in order to determine what steps Israel needs to take to ensure Pegase DFS is more effective.

The publication of the report was met with a high level of political and media interest. The media coverage included headlines in major international newspapers, television coverage and discussion in Europe, the Middle East, Asia, the Americas, Oceania and the blogosphere.

The report was presented to the European Parliament, which fully endorsed the ECA's conclusions and recommendations. The Parliament urged the EEAS and Commission to take the necessary measures to improve the delivery of support to the PA.

Audit team (from left to right) Francis Joret, Fabrice Mercade, ECA Member Hans Gustaf Wessberg, Jana Hošková and Svetoslav Hristov.

- **EU support for governance in the Democratic Republic of the Congo** (9/2013) — assessed whether the EU's support for governance was relevant to needs and achieving its planned results, and whether the Commission took sufficient account of the Democratic Republic of the Congo's fragile context in the design of EU programmes. The audit covered EU support for the electoral process, security sector reform (justice and police), public financial management reform and decentralisation over the 2003–11 period. The audit concluded that the effectiveness of EU assistance for governance in the Democratic Republic of the Congo is limited. Support is set within a generally sound cooperation strategy, addresses the country's main governance needs and has achieved some results. However, progress is slow, uneven and, overall, limited. Fewer than half of the programmes have delivered, or are likely to deliver, most of the expected results. Sustainability is an unrealistic prospect in most cases.

  Good governance is a fundamental European value and a key component of the EU's development cooperation with third countries. After resuming structural cooperation with the Democratic Republic of the Congo, the EU provided about €1.9 billion in assistance between 2003 and 2011, making it one of the country's most important development partners.

- **EU development assistance to central Asia** (13/2013) — assessed how the Commission and the EEAS had planned and managed development assistance to the central Asian republics (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) in the 2007–12 period. The audit found that the Commission and the EEAS had made serious efforts, in challenging circumstances, to plan and put into effect the programme of EU development assistance to central Asia set out in the regional strategy paper of April 2007. Planning and allocation of assistance were generally satisfactory, implementation less so.

  Between 1991 and 2013 the EU allocated more than €2.1 billion in development and humanitarian assistance to these countries, of which €750 million was for the 2007–13 period. From 2007 to 2012, the Commission paid €435 million in development assistance to central Asia, of which Kyrgyzstan and Tajikistan were the main beneficiaries.

- **EU climate finance in the context of external aid** (17/2013) — assessed how well the Commission has managed climate-related spending from the EU budget and the European Development Funds (EDFs). The audit found that the Commission has focused its aid programmes on appropriate priorities, but significant further efforts are needed to ensure that the EU's and Member States' programmes are complementary and prevent and combat corruption.

  In 2009, developed countries agreed fast-start finance of USD 30 billion for 2010–12 and a long-term commitment of USD 100 billion per year by 2020. The EU Member States and the Commission have not agreed on how to meet their long-term commitment and the extent to which the EU has fulfilled its fast-start finance pledge is unclear. There is no EU-wide agreement on how to define climate finance and an effective monitoring, reporting and verification system is not yet in place.

EU revenue/own resources

Most EU revenue is calculated on the basis of macroeconomic statistics and estimates provided by the Member States. The ECA's audit of the regularity of the underlying transactions related to GNI and VAT-based contributions covers the Commission's processing of the data provided by Member States and not the initial generation of that data.

During 2013, the ECA adopted the following report in this area.

- **Getting the gross national income (GNI) data right: a more structured and better-focused approach would improve the effectiveness of the Commission's verification** (11/2013) — assessed whether the Commission's verification of GNI data used for own-resource purposes was well structured and focused. The ECA concluded that the Commission's verification of GNI data was not sufficiently structured and focused. The Commission did not plan and prioritise its work in an appropriate way, did not apply a consistent approach when carrying out its verifications in Member States and did not carry out sufficient work at Member State level. Moreover, the verifications were not adequately reported. The recommendations in the report would help ensure that the Member States' contributions to the EU budget are correctly calculated and fairly based. It would also improve the effectiveness of the Commission's work. The Commission has accepted the need for action.

The EU budget is financed from own resources and other revenue. There are three categories of own resources: traditional own resources (customs duties collected on imports and sugar production charge), own resources calculated on the basis of value added tax collected by Member States and own resources derived from Member States' GNI. The last of these increased from around 50 % of the budget in 2002 (€46 billion) to 70 % in 2012 (€98 billion).

Follow-up to previous recommendations

A key way that the ECA contributes to improving EU financial management is through its recommendations. During 2013, the ECA adopted its second special report following up on the implementation of the recommendations contained in previous special reports.

- **2012 report on the follow-up of the European Court of Auditors' special reports** (19/2013) — assessed whether the Commission had adequately followed up audit recommendations made by the ECA in its special reports during the 2006–10 period. The audit consisted of a sample of 62 recommendations from 10 special reports. The ECA assessed the action taken by the Commission in response to those recommendations. The audit showed that the recommendations had been taken on board — the Commission had fully implemented, or implemented in most respects, 83 % of the recommendations examined, while 12 % had been implemented in some respects and 5 % had not been implemented.

The following-up of audit reports is considered by international auditing standards as the final stage in the performance audit cycle of planning, execution and follow-up. More information on the follow-up given to the ECA's recommendations is presented on page 41.

EU auditors on their way to audit a beneficiary on the spot.

Opinions and other output in 2013

The ECA contributes to improving **EU financial management** through its opinions on proposals for new or revised legislation with financial impact. These opinions are requested by the other EU institutions, and used by the legislative authorities — the European Parliament and the Council — in their work. The ECA can also issue position papers on other issues at its own initiative. Two president's letters were issued in 2013. One responded to a Council request for a summary of the findings of the ECA's specific annual reports on EU agencies, other bodies and joint undertakings (see page 12). The other addressed the Council's proposals for establishing a single supervisory mechanism of credit institutions.

In 2013, the ECA adopted four opinions covering a number of significant areas:

- the statute and funding of European political parties and European political foundations (1/2013) (see box);
- an amended proposal for a regulation laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the common strategic framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund (2/2013);
- the financial regulation of the 11th European Development Fund (3/2013); and
- an amendment to the financial rules applicable to the EU budget regarding the carry-over of appropriations for certain categories of spending (4/2013).

The opinions are published in full on the ECA's website (*http://eca.europa.eu*) in all official EU languages.

4 opinions
adopted in 2013

Opinion No 1/2013 concerning the proposal for a regulation on the statute and funding of European political parties and European political foundations

In 2012, a total of 13 political parties and 12 political foundations at the European level received funding from the general budget of the EU. Funding has been provided to political parties since 2004, and the funding of political foundations started in 2007. The funds are administered by the European Parliament.

The proposal for a regulation on the statute and funding of European political parties and European political foundations would give these bodies a European legal personality. In the future, being registered with such a status by the European Parliament will be a precondition for receiving funds from the EU budget.

The Commission's proposals addressed a number of shortfalls in the provisions then in force. However, some further issues needed to be addressed in order to encourage a European political culture of independence, accountability and responsibility, to strengthen scrutiny and avoid the potential abuse of the funding rules.

Among its observations, the ECA noted that the regulation needed to clearly define what would be held to be donations, contributions or loans to a European political party. It also recommended that sanctions for breaking the rules be less discretionary and that the regulation provide for a multiple of the irregular money amounts involved, without a maximum ceiling.

While the draft regulation would require political parties and foundations to submit annual financial statements according to the law applicable in the Member State in which they have their seat, the ECA found that in order to enhance comparability and transparency, it would be preferable to have a standardised, accruals-based presentation of accounts and detailed reporting obligations, using a compulsory model, which would apply to all political parties and foundations independently of the law applicable in the Member State in which they have their seat.

The ECA also noted that the regulation should be clarified to clearly state that the EU's external auditor has jurisdiction to audit these funds.

Relations with stakeholders

The value of the ECA's contribution to EU accountability depends, to a large extent, on the use made of its work and products by its main partners in the accountability process. Those partners are the political authorities responsible for public oversight of the use of EU funds (i.e. the European Parliament, the Council of the European Union and national parliaments). The ECA's strategy for 2013–17 commits it to enhancing its arrangements for monitoring external development and managing relations with its partners.

The president and the members of the ECA maintain regular contacts with the committees of the European Parliament, in particular in the Committee for Budgetary Control (CONT). In 2013, President Caldeira participated in five CONT meetings, as well as in a number of European Parliament plenary meetings. This included presenting the ECA's annual programme and annual reports, as well as its opinions and other products.

In 2013, other ECA members appeared 68 times before the CONT at 15 meetings on the subject of the ECA's annual and special reports dealing with specific questions of budget and/or policy implementation. The resulting discussions led to reports being prepared by individual CONT members on the ECA's special reports, including a draft report on ECA special reports in the context of the 2012 Commission discharge.

On a number of occasions, Members had the opportunity to present special reports to other EP committees, including those on agriculture and development. In addition, 2013 saw the continuing tradition of a joint meeting between the members of the CONT and the ECA.

In 2013, the CONT began discussing a report on the future role of the ECA. The ECA welcomes the view expressed in the report that any reform of the Court should be seen in the wider context of the challenge of improving EU accountability. The ECA looks forward to addressing issues where it has the power to act. They mainly relate to its work, its stakeholder relations and its use of resources. In many cases, the ECA already has a number of relevant initiatives underway as part of the process for implementing its strategy for 2013–17.

The ECA also cooperates with the Council in its many different configurations and activities. In 2013 President Caldeira presented the annual reports to the Economic and Financial Affairs Council, and ECA members are regularly called upon to present special reports to Council committees.

Ensuring effective relations with national parliaments is a priority of the ECA. ECA members often present its annual report to national audiences. National parliaments' European affairs and financial control committees are regularly kept informed about the ECA's activities. Delegations from a number of national parliaments visited the ECA during the year, including Mr Yannakis L. Omirou, President of the House of Representatives of the Republic of Cyprus.

Annual meeting of the ECA and the CONT, Luxembourg, October 2013.

Cooperation with other supreme audit institutions

The ECA cooperates with other supreme audit institutions (SAIs) mainly through:

- the Contact Committee of the **SAIs of EU Member States**;
- the Network of the **SAIs of Candidate and Potential Candidate Countries** to the EU; and
- **international organisations** of public audit institutions, notably the International Organisation of Supreme Audit Institutions (Intosai) and its European regional group (Eurosai).

Contact Committee of the Supreme Audit Institutions of EU Member States

The EU Treaty requires the ECA and national audit bodies of the Member States to cooperate in a spirit of trust, while maintaining their independence. The ECA actively cooperates with EU Member State SAIs through the Contact Committee framework, which includes an annual meeting and various working groups, networks and task forces set up to address specific issues of common interest.

In May 2013, the ECA hosted an extraordinary Contact Committee meeting, chaired by the SAI of Lithuania, with the aim of closely following developments connected with economic and monetary union (EMU) and EU economic governance. At this meeting a statement on the importance of appropriate audit and accountability arrangements in economic and monetary union and EU economic governance was adopted by the Contact Committee.

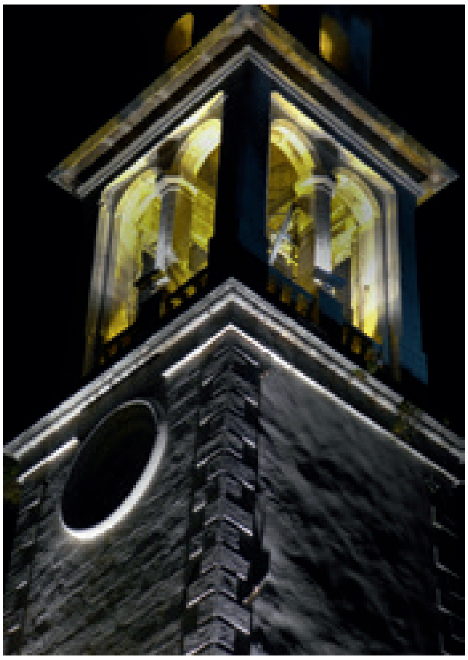
The 2013 ordinary annual meeting, held in Vilnius (Lithuania) in October 2013, focused on two main themes: a seminar on the role of SAIs in improving accountability in the EU within the new financial framework for 2014–20 and the new financial regulation, and the latest developments concerning the new economic governance.

The Contact Committee of the Supreme Audit Institutions of the European Union, Lithuania, October 2013.

Network of Supreme Audit Institutions of Candidate and Potential Candidate Countries to the EU

The ECA cooperates with the SAIs of EU candidate and potential candidate countries, mainly through a network[2] similar to the Contact Committee.

In November 2013, the ECA co-chaired the presidents' network meeting held in Montenegro. The objective of the meeting was to identify priority topics for the network's new outline work plan, based on the results of its previous activities. The meeting was preceded by a conference on relations between supreme audit institutions and parliaments, to which the ECA actively contributed.



Budva, Montenegro.

2 As at January 2014, the network comprises five candidate countries (the former Yugoslav Republic of Macedonia, Iceland, Montenegro, Serbia and Turkey) and two potential candidate countries (Albania and Bosnia and Herzegovina). In November 2013 Kosovo* was admitted to participate in the Network as observer.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ opinion on the Kosovo declaration of independence.

Other cooperation

In 2013, the ECA continued its active involvement in, and contribution to, the activities of Intosai and Eurosai.

Since becoming a full member of Intosai in 2004, the ECA has played a full and active part in Intosai activities and has participated in several of its committees and working groups.

In 2013, the ECA continued its involvement in Intosai's goal 1 (professional standards) as a member of:

- the financial, compliance and performance audit subcommittees; and
- the project on audit quality control and the harmonisation project.

As regards Intosai's goal 2 (capacity building), the ECA:

- provided input and expertise to the subcommittee on promoting best practices and quality assurance through voluntary peer reviews; and
- followed the work of the subcommittee on promoting increased capacity-building activities among Intosai members.

Regarding Intosai's goal 3 (knowledge sharing), the ECA chaired the **Working Group on Accountability for and Audit of Disaster-related Aid** from 2008. In October 2013, the Intosai Congress (Incosai) **endorsed** the main output of the working group in the form of the five international standards of supreme audit institutions (ISSAIs) included in **the new 5500-5599 series of guidance on auditing disaster-related aid**, as well as the guidance for good governance (Intosai GOV) on an integrated financial accountability framework for disaster-related and humanitarian aid. With the endorsement of these important documents the working group was closed.

The ECA also participated:

- as a steering committee member in the Intosai Working Group on Environmental Auditing; and
- in the Intosai Working Group on Financial Modernisation and Regulatory Reform (formerly Task Force on the Global Financial Crisis).

In October 2013, the ECA participated in the XXI Intosai Congress (Incosai) in Beijing, China, where it was represented by President Vítor Caldeira, Gijs de Vries (Member of the ECA and chairman of the Working Group on Accountability for Disaster-related Aid) and Henrik Otbo, Member of the ECA.

The ECA continued its involvement in the IntoSAINT project, a self-assessment instrument led by the SAI of the Netherlands under the auspices of Intosai. In 2013, a self-assessment of integrity was carried out at the ECA under the moderation of facilitators from the SAIs of Norway and the Netherlands.

In 2013, the ECA participated in the XL Eurosai Governing Board meeting, following its appointment as a member of the Governing Board in 2011, and continued its active involvement in Eurosai working groups and task forces. The ECA:

- attended the 11th annual meeting of the Eurosai Working Group on Environmental Audit;
- attended the second meeting of the Eurosai Task Force on Audit and Ethics and organised and hosted the Eurosai Seminar on Auditing Ethics; and
- attended the first Young Eurosai (YES) Congress.

In the framework of the joint conferences between Intosai's regional working groups, the ECA actively participated in the IV Eurosai–Arabosai Joint Conference, which focused on modern challenges for SAIs' capacity building. The ECA contributed with a country paper on theme I — responsibilities of supreme public authorities arising from the challenges of UN General Assembly Resolution A/66/209 of 22 December 2011.

XXI Intosai Congress (Incosai), China, October 2013.

New international guidelines on providing and auditing humanitarian aid after disasters

With disasters becoming more frequent worldwide and their human and economic impact growing, the flow of humanitarian aid has increased markedly in recent years. Despite this, for a time there was no specific guidance on auditing disaster-related aid. Intosai responded by creating the Working Group on Accountability for and Audit of Disaster-related Aid. It was chaired by the ECA, which published new guidelines for donors, recipients and auditors of humanitarian disaster aid.

The new guidelines, called Intosai GOV 9250 and the 5500 series of ISSAIs, aim to **improve the transparency and accountability** of disaster-related and other humanitarian aid.

The Intosai GOV 9250 **guidelines help providers** (donors and multilateral organisations involved in channelling funds) and recipients of humanitarian aid to identify, clarify and **simplify the flow of aid** between them. Each provider and recipient ('stakeholder') of humanitarian aid should produce a table using readily available data showing the origin of the funds and to whom and for what purpose they are paid out.

The 5500-series ISSAIs define **rules and good practice** on auditing disaster risk reduction and post-disaster aid **to assist SAIs** with helping to limit the impact of disasters and **improve the effectiveness**, economy and efficiency of aid.

Prior to their publication, the new guidelines were reviewed by some 30 organisations (SAIs, the United Nations and other international organisations, governments and NGOs) and met with widespread approval and enthusiasm.

Significant events

Inauguration of new ECA building

On 8 May 2013 the ECA's new K3 building was inaugurated by the Luxemburgish Prime Minister Juncker, John Perry, Minister of State representing the Irish Presidency of the Council and Vítor Manuel da Silva Caldeira, President of the ECA. Visitors included the architects of the building and those involved in its construction, representatives of the EU institutions and of the city of Luxembourg, former ECA Members and presidents of Member States' supreme audit institutions. The inauguration marked the achievement of the K3 project being completed on time and within budget, and the fact the new building united the entirety of staff in one location for the first time in many years.

On the same occasion, the ECA hosted an extraordinary meeting of the heads of the supreme audit institutions of the EU Member States in view of the European Council meeting in June 2013. The importance of ensuring adequate audit and accountability arrangements for economic and monetary union and banking union was emphasised. For more information see page 31.

Jean-Claude Juncker speaking at the inauguration of the new ECA building, Luxembourg, May 2013.

Herman Van Rompuy speaking at the ECA conference on governance and accountability, Luxembourg, September 2013.

Thirty-fifth anniversary conference on governance and accountability

As part of its 35th anniversary celebrations, the ECA hosted a conference on European governance and accountability at its headquarters in Luxembourg on 12 September 2013.

The conference brought together academics and representatives of the EU institutions in order to debate issues related to European governance, taking into account the pillars of financial and political accountability. In the keynote speech, the **President of the European Council, Herman Van Rompuy**, noted that in difficult times citizens have legitimate expectations that their hard-earned taxes are being effectively spent. In his speech, ECA President Vítor Caldeira recognised the challenges facing more effective public accountability for the results achieved by EU spending.

The conference concluded with a **roundtable debate by experts** in the field: Patrick Dunleavy, Professor of Political Science and Public Policy Chair at the London School of Economics and Political Science; Michael Theurer, Chair of the Committee on Budgetary Control of the European Parliament; Pablo Zalba Bidegain, Vice-Chair of the Committee on Economic and Monetary Affairs of the European Parliament; Mark Bovens, Professor of Public Administration at the Utrecht University School of Governance; and Gijs de Vries, Member of the European Court of Auditors.

ECA Awards ceremony (from left to right) former ECA Member John Wiggins, award winner Mieke Hoezen and ECA President Vítor Caldeira, Luxembourg, June 2013.

European Court of Auditors 2012 Fabra Award for research into public sector auditing

On 25 June 2013, the ECA awarded Ms Mieke Hoezen the prize in its second edition of the **ECA award for research into public sector auditing**. The aim of the award is to provide an incentive and recognition for research on public-audit issues. In 2013 it paid tribute to the memory of Juan Manuel Fabra Vallés (1950–2012), former President of the ECA, who through his work and example contributed to the ECA's reputation as a European institution at the forefront of the development of public auditing.

At the public ceremony, Ms Hoezen presented her winning thesis entitled 'The competitive dialogue procedure: negotiations and commitment in inter-organisational construction projects'. It is an effectiveness study of a European instrument — the competitive dialogue procurement procedure.

Ms Hoezen is an experienced researcher from the Netherlands. She completed her PhD thesis at the University of Twente, the Netherlands, in June 2012. According to the 2012 ECA Awards Selection Committee, this thesis contributes to public sector auditing by giving a method for effectiveness studies, including reconstruction of policy rhetoric, mechanism expectations and actual performance measurement.

Our management

The ECA College

The ECA College comprises one Member per Member State. Under the Treaty on the Functioning of the European Union, ECA Members serve a term of 6 years, and their mandates can be renewed.

Members are assigned to one of five chambers. Chambers adopt audit reports and opinions and take decisions on broader strategic and administrative issues. Each Member also has responsibility for his or her own tasks, which are primarily audit related. The underlying audit work is carried out by the ECA's audit staff under the coordination of the responsible member, who is assisted by a private office.

He or she then presents the report to the chamber and/or full Court for adoption, and then to the European Parliament, Council and other relevant stakeholders, including the media.

In 2013, following nominations from their Member States, and after consultation with the European Parliament, the Council of the European Union appointed three new Members to the ECA. Two new Members joined the ECA:
Ms Iliana Ivanova (Bulgaria) in January and
Mr George Pufan (Romania) in July. On 1 July 2013 Croatia became the EU's 28th Member State, and the ECA welcomed its first Croatian member, Mr Neven Mates.

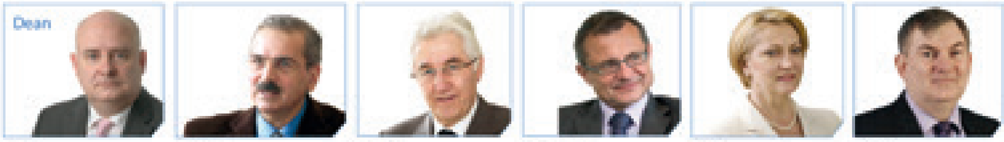
ECA College at the end of 2013.

EUROPEAN COURT OF AUDITORS
at the end of 2013

President

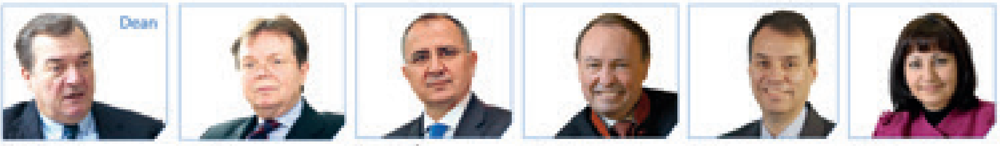
Vítor Manuel
da SILVA CALDEIRA
Portugal

Chamber I - Preservation and management of natural resources



- Dean: Jan KINŠT, Czech Republic
- Ioannis SARMAS, Greece
- Michel CRETIN, France
- Augustyn KUBIK, Poland
- Rasa BUDBERGYTĖ, Lithuania
- Kevin CARDIFF, Ireland

Chamber II - Structural policies, transport and energy



- Dean: Henri GRETHEN, Luxembourg
- Harald NOACK, Germany
- Lazaros S. LAZAROU, Cyprus
- Harald WÖGERBAUER, Austria
- Ville ITÄLÄ, Finland
- Iliana IVANOVA, Bulgaria

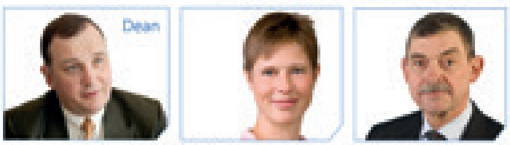
Chamber III - External actions

- Dean: Karel PINXTEN, Belgium
- David BOSTOCK, United Kingdom
- Szabolcs FAZAKAS, Hungary
- Gijs M. de VRIES, Netherlands
- Hans Gustaf WESSBERG, Sweden

Chamber IV - Revenue, research and internal policies, and European Union's institutions and bodies

- Dean: Louis GALEA, Malta
- Ladislav BALKO, Slovakia
- Milan Martin CVIKL, Slovenia
- Pietro RUSSO, Italy
- Baudilio TOMÉ MUGURUZA, Spain
- George PUFAN, Romania
- Neven MATES, Croatia

CEAD Chamber - Coordination, evaluation, assurance and development



- Dean: Igors LUDBORŽS, Latvia
- Kersti KALJULAID, Estonia
- Henrik OTBO, Denmark

A new strategy for 2013–17: progress made

In 2013, the ECA began implementing its strategy for 2013–17. The ECA's objective for this period is to maximise the value of its contribution to EU public accountability. To meet this objective, the main priorities are to:

- focus the ECA's products on improving EU accountability;
- work with others to leverage the ECA's contribution to EU accountability;
- develop the ECA further as a professional audit institution;
- make best use of the ECA's knowledge, skills and expertise;
- demonstrate the ECA's performance and accountability.

Over the 2013–17 period, the ECA will focus its reports, opinions and observations on the need to:

- enhance public accountability and audit arrangements;
- improve financial management and reporting on the implementation and impact of the EU budget; and
- strengthen the design of EU policies and spending programmes.

In 2013, implementation of the ECA strategy focused on:

- reviewing and updating the annual report on the implementation of the EU budget for the financial year 2014 onwards;
- enhancing audit selection and planning through the introduction of a new work programming system to allow the ECA to focus more effectively on strategic priorities and stakeholder needs;
- responding to the demand for analytical reports on broader EU public spending issues by launching two landscape reviews to be published in 2014, one on EU accountability gaps and the other on overall EU financial management risks;
- developing and further professionalising external communication and stakeholder relations with specific measures to be implemented in 2014;
- improving the ECA's performance audit practice through an external peer review by the supreme audit institutions of Germany, France and Sweden, to be published in early 2014;
- increasing efficiency by preparing proposals for optimising the allocation of audit roles and responsibilities and streamlining the performance audit process; and
- redesigning the ECA's key performance indicators to improve measurement of the ECA's performance (pages 40 to 43).

Measuring the ECA's performance

Since 2008, the ECA has applied key performance indicators (KPIs) to inform management of the progress made towards its goals, to support decision-making and to provide information on performance to its stakeholders. The KPIs were designed to reflect the ECA's priorities and demonstrate its performance and accountability as a professional audit institution.

The indicators aim to measure key elements of the quality and impact of the ECA's work, paying particular attention to the opinion of key stakeholders, and the efficiency and effectiveness of its use of resources.

The KPIs have been updated for the 2013–17 strategic period. Comparative figures are provided for some indicators, whereas for others the indicators were measured for the first time in 2013.

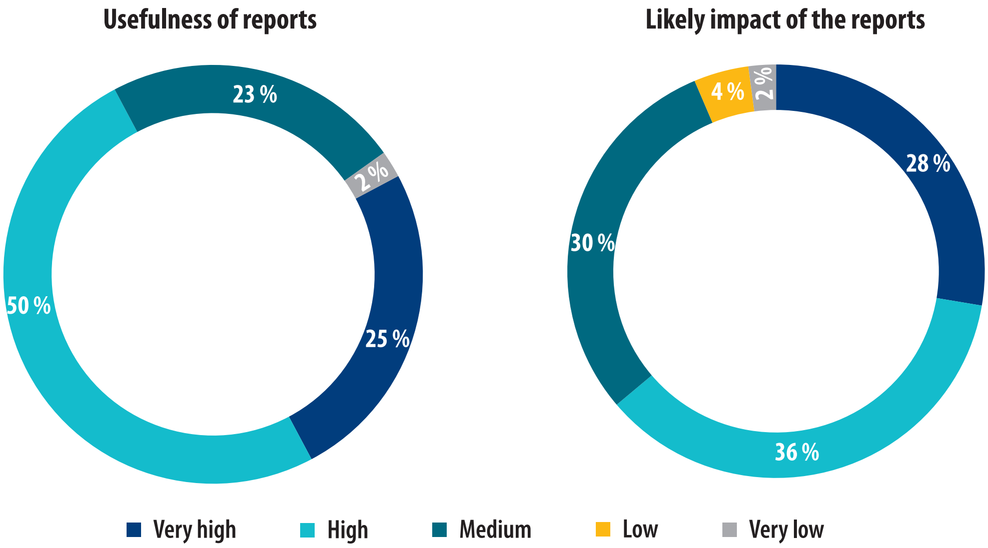
Quality and impact of the ECA's work

The ECA assesses the quality and impact of its reports based on **stakeholder appraisal, expert reviews** and the **follow-up given to its recommendations** for improving EU financial management. A new KPI has been added to measure the ECA's **presence in the media**.

Stakeholder appraisal

The ECA invited its **main stakeholders** — the European Parliament's Committee on Budgetary Control and Committee on Budgets, the Council's Budget Committee, the main auditees at the Commission and European agencies, and the heads of EU SAIs — to rate the **usefulness and impact** of its reports published in 2013 on a five-point scale from very low to very high.

Stakeholder appraisal



The responses show that **98 %** of the main stakeholders value the ECA's reports as being useful to their work, and **94 %** consider them to have impact.

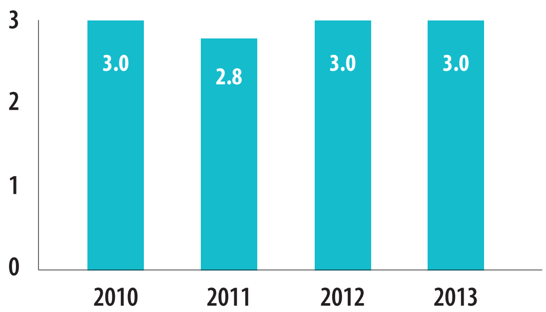
Expert reviews

Each year, **independent external experts** review the content and presentation of a sample of the ECA's reports. In 2013 the reviewers assessed eight special reports and the 2012 annual reports.

They rated the quality of various aspects of the reports on a four-point scale ranging from 'significantly impaired' (1) to 'high quality' (4).

The results indicate that the external expert reviewers consider the quality of the ECA's 2013 reports to be 'satisfactory'. The reviews provide the ECA with **valuable information on the quality** of its reports, and the reviewers' recommendations will be used to make further improvements.

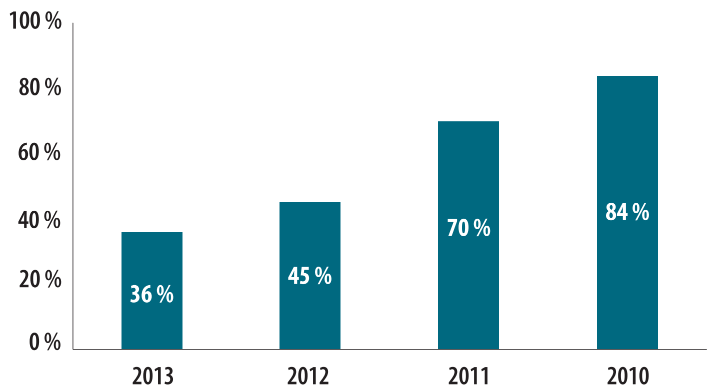
Expert reviews of the ECA's reports



Follow-up of recommendations

A key way the ECA contributes to improving financial management is through its recommendations. Some recommendations can be implemented quickly, whereas others take more time due to their complexity. The ECA systematically monitors the extent to which its **recommendations have been implemented by auditees**. By the end of 2013, 70 % of the recommendations issued in 2011 and 60 % of the nearly 500 recommendations issued in 2010–13 had been implemented.

Implementation of ECA recommendations by year of issuance

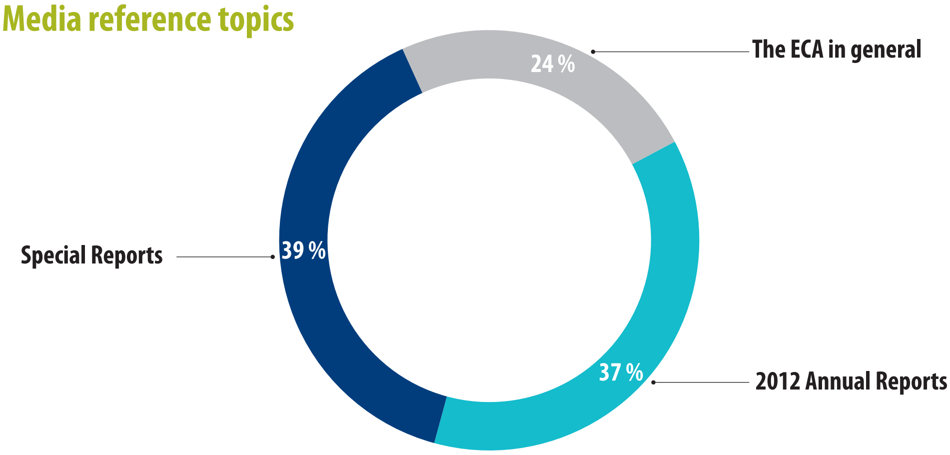


Media presence

The indicator for the ECA's presence in the media provides a reflection of its **media impact**. It relates to the strategic objective of raising awareness of the ECA, its products and audit findings and conclusions.

In 2013, the ECA identified **over 1 300 online articles** relating to its special reports, the 2012 annual report and the institution in general. A total of 76 % of the articles concerned the ECA's audit reports, while the remainder dealt with the ECA in general.

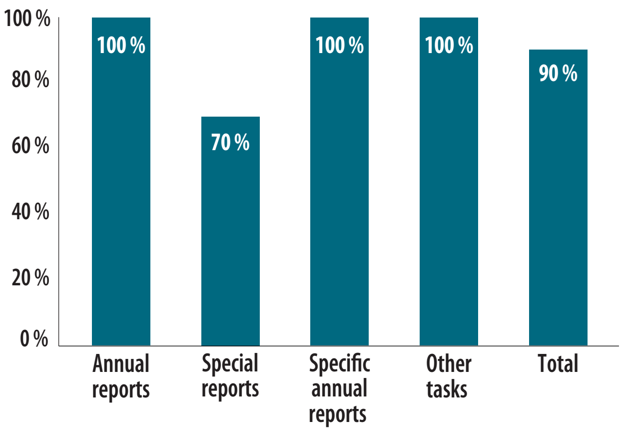
Media reference topics



Efficient and effective use of resources

The ECA assesses the efficiency and effectiveness of the use of its resources in terms of its ability to implement its work programme, conduct timely audits and ensure the professional competence of its staff.

Implementation of ECA's 2013 Annual Work Programme



Implementation of work programme

The ECA plans its audits and other tasks in its annual work programme and monitors progress throughout the year.

In 2013, the ECA implemented **90 %** of its work programme. The annual reports and specific annual reports were produced as planned, but just 70 % of special reports were produced, partly due to the need to complete tasks brought forward from 2012. The tasks not completed in 2013 will be **carried over to 2014**. The ECA continues to focus on improving the accuracy of its audit planning and the efficiency of special report production.

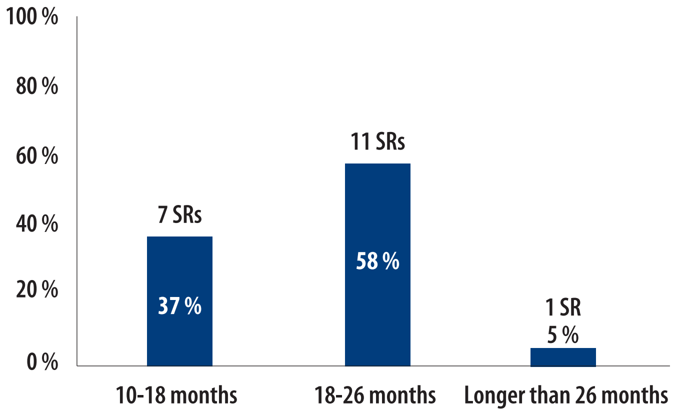
Production of special reports

To have an **impact**, the ECA's special reports — which give the results of its selected audits — need to be **timely**. In recent years the ECA has managed to shorten the production time of its audit reports.

The 2013–17 strategy seeks to improve the situation further and should have a visible impact over the next few years.

In 2013 the ECA adopted 19 special reports, of which **37 %** were produced within the maximum timeframe of 18 months the ECA aims to meet. The average time taken for special reports adopted in 2013 was **20 months** (similar to 2012).

Duration of special reports adopted in 2013

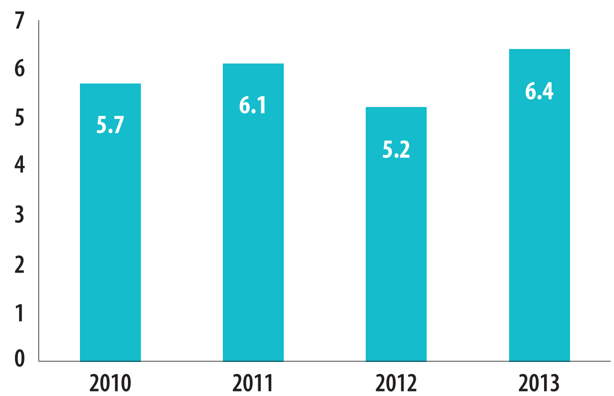


Professional training

Following guidelines published by the International Federation of Accountants, the ECA aims to provide an **average of 40 hours** (5 days) of professional training per auditor per year.

In 2013, the ECA's audit staff spent an average of **6.4 days** on professional training (excluding language training). This is the most since we started to measure this indicator in 2008, and it reflects the ECA's commitment to the excellence of its staff.

Professional training days per auditor



Human resources

Staff allocation

As a response to the difficult economic situation in the European Union, and within the context of the then ongoing reform of the EU Staff Regulations, in 2011 the budgetary authority and the Commission called upon all EU institutions to reduce the number of their staff by 5 % between 2013 and 2017.

As a result, in 2013, staff allocation (the number of posts available) was reduced from 900 (including 13 additional posts foreseen following the accession of Croatia to the EU) to 891 officials and temporary staff (excluding Members, contract staff, seconded national experts and trainees). 576 of these work in audit chambers (including 120 in the Members' private offices). See the table for more information.

To contribute to the goal of making best use of resources, all activities in 2013 continued to be made more efficient through the simplification of procedures. Whenever possible, non-audit posts made available through efficiency gains were redeployed to audit. Thus, the number of audit posts has increased by 15 % since 2008, while the overall number of posts allocated to the ECA has increased by only 4 % over the same period.

Recruitment

ECA staff have a broad range of academic and professional backgrounds, and the quality of their work and their commitment is reflected in the institution's output. The ECA's recruitment policy follows the general principles and employment conditions of the EU institutions, and its workforce comprises both permanent civil servants and staff on temporary contracts. Open competitions for posts at the ECA are organised by the European Personnel Selection Office (EPSO).

In 2013, additional selection procedures were held to recruit temporary staff (AD6 and AD10 auditors and an AD13 financial expert) and a head of unit. The ECA also provided 91 traineeships to university graduates for periods of 3 to 5 months.

In 2013, the ECA recruited 80 employees: 31 officials, 28 temporary staff and 21 contract staff. The ECA was particularly successful in recruiting new staff to audit posts. The number of **vacant posts** has been close to 3 % since 2011.

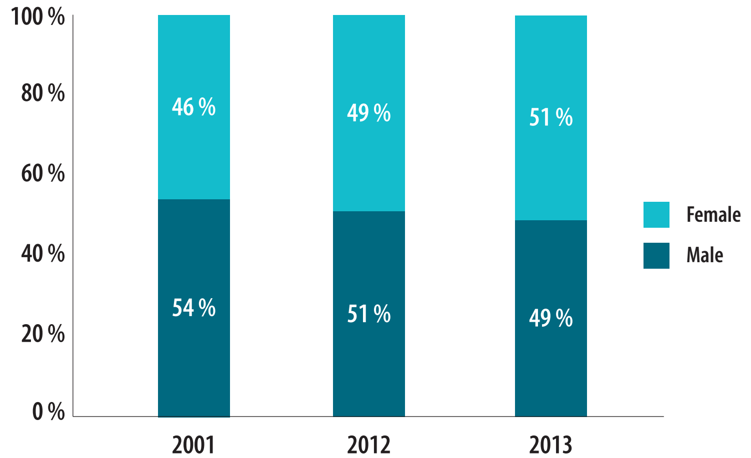
Distribution of ECA staff as at 31 December	2008	2009	2010	2011	2012	2013
Audit	501	525	557	564	573	576
Translation	163	163	151	148	143	147
Administration	173	171	157	148	139	137
Presidency	20	21	24	27	32	31
Total	857	880	889	887	887	891

Gender balance

The ECA, like the other EU institutions, has a policy of **equal opportunities** in its human resources management and recruitment.

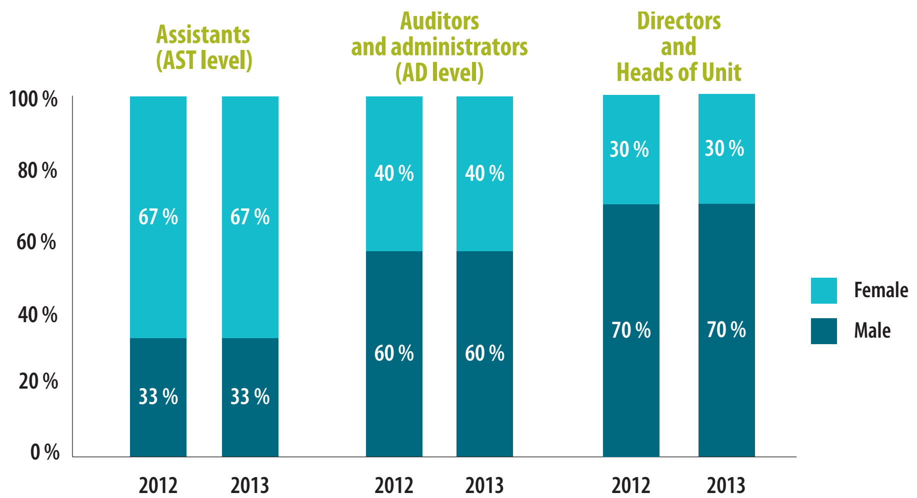
The ECA has reached equal proportions of men and women in its workforce, after a gradual increase over the years in the proportion of women.

Gender balance



55 %
of ECA staff are aged 44 or less

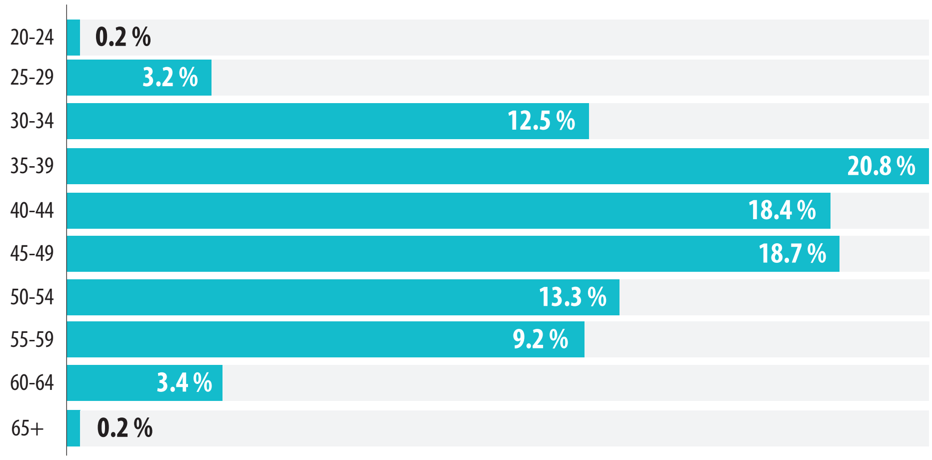
However, of the 70 directors and heads of unit, 21 (30 %) are women, which is comparable to previous years. Most are employed in the Translation Directorate and in administrative departments. At the end of 2012, the ECA adopted an equal opportunities action plan to achieve a gender balance at all levels. The charts below show the proportion of men and women by level of responsibility at 31 December 2013. The proportion of women at AD level is increasing. Following the latest recruitment campaigns, 48 % of all staff at AD5 to AD8 levels are female (up from 43 % in 2009).



Age profile

The age profile of staff in active service at 31 December 2013 shows that just over 55 % of the ECA's staff members are aged 44 or less.

Almost 40 % of directors and heads of unit are aged 55 or above. This will lead to a significant renewal of senior management over the next 5 to 10 years.



Professional training

All ECA staff need continuous training in order to keep abreast of professional developments and develop new skills. Furthermore, the particular nature of the ECA's audit environment creates a need for staff with good linguistic abilities.

In 2013, the ECA's staff each received an average of 9.6 days of professional training (11.8 days for auditors). Language courses represented 46 % of this total, compared to 52 % in 2012.

In 2013, the content of training was further improved and new courses were developed to meet audit priorities, including a number of training events on topics related to financial and economic governance (a specific priority for the 2013–17 strategic period).

Translation

Translation is an audit support activity which enables the ECA to fulfil its mission and meet its communication objectives. In 2013, the total volume of translation work reached a record of 186 699 pages, nearly 18 % more than the 2012 workload. Over 99 % of translations were completed on time.

In 2013, anticipating the accession of Croatia, the Court recruited a translation team for this language.

The Translation Directorate provided 29 linguistic support missions for travelling auditors (31 weeks) and during successive phases of the drafting of audit reports.

Support was also provided to Intosai working groups and for other specific needs related to the ECA's audit activities. In 2013, the Translation Directorate implemented a new generation of the computer-assisted translation tool Studio. It was also active in interinstitutional and international professional forums.

Information technology

Information technology (IT) is a critical element for the ECA to make best use of its knowledge while reinforcing its effectiveness and efficiency. In 2013, in addition to the successful move to the new K3 building, the ECA:

- reinforced its investment in **knowledge management**: a major version of its new audit support tool (Assyst2) has been released and progressively deployed. An audit management system project (AMS) has been launched to improve planning and resources management capability. A skills database has been created as the kernel for an enterprise social network — a key element of knowledge sharing and dissemination — and a new search tool is operational.

- continued to support **mobility**: the 'laptop for everybody' campaign has been completed, together with the introduction of Wi-Fi throughout all buildings, in line with support for a more mobile workplace. The voice and data network infrastructure has been upgraded in the K1 and K2 buildings to align it with the new K3 standard, thereby enabling the introduction of unified communications across the institution.

- upgraded key **information systems**: a new ECA Internet site to improve the dissemination of audit output and a new intranet to facilitate the flow of information within the institution have been completed. A new staff appraisal system has been introduced to support the streamlining of this essential business process.

These developments have been carried out while continuing to reinforce the **security** of operations and business continuity provisions in order to guarantee the requisite availability and quality of all ECA IT services, as well as modernising key IT elements (e.g. migrating to Windows 7 and Office 2010).

Administration and facilities

The Finance and Support Directorate's **mission** is twofold:

(a) to provide adequate resources, services and facilities to enable the ECA to accomplish its mission and achieve its strategic objectives; and

(b) to ensure that the necessary financing, internal controls and accounting mechanisms are in place to support all of the ECA's activities. In 2013, the directorate continued to focus on further improving efficiency and economy in its activities.

By April 2013, ECA staff from all other buildings had been moved to their final locations and, for the first time in recent history, all staff are now together under one roof.

Financial information

The ECA is **financed** by the general budget of the European Union. It accounts for around 0.095 % of total EU spending and 1.62 % of total administrative spending.

In 2013 the overall rate of implementation for the budget was 92 %. For Title 1 the rate was 92 %, with the lowest percentage (91 %) in Chapter 12 (officials and temporary staff). The average implementation rate for Title 2 was 96 %.

The amount of payments under Chapter 20 (immovable property, e.g. buildings) was affected by the construction of the second extension to the ECA, the K3 building.

Implementation of the 2013 budget

2013 FINANCIAL YEAR	(A) Final appropriations	(B) Commitments	% use (B)/(A)	Payments
Title 1: People working with the institution				€ 000s
10 - Members of the institution	14 616	13 612	93 %	13 431
12 - Officials and temporary staff	97 772	89 312	91 %	89 306
14 - Other staff and external services	4 366	4 034	92 %	3 984
162 - Missions	3 700	3 510	95 %	2 713
161 + 163 + 165 - Other expenditure relating to persons working for the institution	2 758	2 709	98 %	1 996
Subtotal Title 1	**123 212**	**113 177**	**92 %**	**111 430**
Title 2: Buildings, movable property, equipment and miscellaneous operating expenditure				
20 - Immovable property	7 335	7 135	97 %	3 256
210 - IT&T	7 197	7 195	99 %	3 326
212 + 214 + 216 - Movable property and associated costs	1 160	1 094	94 %	775
23 - Current administrative expenditure	563	532	94 %	407
25 - Meetings, conferences	768	658	86 %	455
27 - Information and publishing	2 526	2 120	84 %	1 221
Subtotal Title 2	**19 549**	**18 734**	**96 %**	**9 440**
Total ECA	**142 761**	**131 911**	**92 %**	**120 870**

The final tranche of financing of €3 million for this project was included in the 2013 budget; this amount was committed and partly paid in 2013.

The balance of appropriations for the K3 building has been carried forward to 2014 to cover contracts signed by the project manager, on the ECA's behalf, with construction companies.

The appropriations will be utilised in accordance with the submission made by the ECA to the European Parliament and the Council in 2008.

Budget for 2014

The 2014 budget represents **a decrease of 6 %** compared to 2013. This includes the reduction in appropriations for the K3 building project.

Budget for 2014

BUDGET	2014 € 000s	2013 € 000s
Title 1: People working with the institution		
10 - Members of the institution	15 175	14 566
12 - Officials and temporary staff	93 180	97 772
14 - Other staff and external services	4 096	4 176
162 - Missions	3 700	3 700
161 + 163 + 165 - Other expenditure relating to persons working for the institution	2 612	2 728
Subtotal Title 1	**118 763**	**122 942**
Title 2: Buildings, movable property, equipment and miscellaneous operating expenditure		
20 - Immovable property	3 350	8 327
210 - IT&T	7 110	7 197
212 + 214 + 216 - Movable property and associated costs	808	830
23 - Current administrative expenditure	438	413
25 - Meetings, conferences	768	768
27 - Information and publishing	2 261	2 284
Subtotal Title 2	**14 735**	**19 819**
Total ECA	**133 498**	**142 761**

Internal audit of the ECA

The internal auditor advises the ECA on dealing with risks by issuing opinions on the quality of management and control systems, and by issuing recommendations with the objective to improve the implementation of operations and to promote sound financial management. Additionally, the internal auditor provides support for the work of the external auditors, whose mandate is to certify the accounts of the Court. The internal auditor reported to the ECA the results of the audits carried out during 2013, the findings, the recommendations made and the actions taken on those recommendations. The ECA also reports to the European Parliament and the Council every year on the results of the internal audit activity.

External audit of the ECA

The annual accounts of the ECA are audited by an independent external auditor. This is an important element of subjecting the ECA to the same principles of **transparency and accountability** as it applies to its auditees.

The report of the external auditor — **PricewaterhouseCoopers Sàrl** — on the ECA's accounts for the 2012 financial year was published on 4 October 2013.[3]

3 OJ C 288, 4.10.2013.

Opinions of the external auditor — 2012 financial year

Regarding the financial statements:

In our opinion, the financial statements give a true and fair view of the financial position of the European Court of Auditors as of 31 December 2012, and its financial performance and its cash flows for the year then ended, in accordance with provisions of Council Regulation (EU, Euratom) No 966/2012 of 25 October 2012 on the financial regulation applicable to the general budget of the Union and with Commission delegated Regulation (EU) No 1268/2012 of 29 October 2012 on the rules of application of the financial regulation.

Regarding the use of resources and the control of procedures:

Based on our work described in this report, nothing has come to our attention that causes us to believe that in all material respects and based on the criteria described above:

- the resources assigned to the ECA have not been used for their intended purposes;
- the control procedures in place do not provide the necessary guarantees to ensure the compliance of financial operations with the applicable rules and regulations.

Declaration by the authorising officer by delegation

I, the undersigned, Secretary-General of the European Court of Auditors, in my capacity as authorising officer by delegation, hereby:

- declare that the information contained in this report is true and accurate; and
- state that I have reasonable assurance that:
  - the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management;
  - the control procedures in place provide the necessary guarantees concerning the legality and regularity of the transactions underlying the accounts and ensure an adequate treatment of allegations of fraud, or suspected fraud; and
  - the costs and benefits of controls are adequate.

This assurance is based on my judgment and on the information at my disposal, such as the reports and declarations of the authorising officers by sub-delegation, the reports of the internal auditor and the reports of the external auditor for previous financial years.

I confirm that I am not aware of anything not reported here which could be detrimental to the interests of the institution.

Luxembourg, 11 March 2014

Eduardo Ruiz García
Secretary-General

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