

European Court of Auditors



# ANNUAL ACTIVITY REPORT FOR 2008

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# CONTENTS

4 – 5	PRESIDENT'S FOREWORD
6	MISSION, VISION AND VALUES
7 – 12	THE COURT'S ROLE AND WORK
13 – 17	GOVERNANCE AND ORGANISATION
18 – 27	OVERVIEW OF AUDIT REPORTS AND OPINIONS
28 – 29	FOLLOW-UP AND IMPACT
30 – 31	THE COURT'S VIEW
32 – 36	THE COURT'S WORK IN 2008 AND BEYOND
37 – 40	LEARNING AND IMPROVING
41 – 43	INTERNATIONAL COOPERATION
44 – 50	HUMAN RESOURCES
51 – 52	FINANCIAL INFORMATION

# PRESIDENT'S FOREWORD



As the independent audit institution of the EU, the Court of Auditors has a unique role to play in contributing to the improvement of the EU financial management and to promoting accountability and transparency. It does this through the audit services it renders and the example it sets.

The year 2008 was marked for the Court by a significant number of key achievements and important developments in EU financial management which this Annual Activity Report highlights. Among them was the *International peer review of the European Court of Auditors*, which concluded positively on the suitability of the Court's audit management framework and on the independence and objectivity of its work.

As regards the Court's 2007 Annual Report published in November 2008, the Court presented, for the first time, a 'clean' opinion on the reliability of the EU accounts. However, as in previous years, the Court found too high levels of errors of illegality and irregularity in areas of the EU budget accounting for the majority of expenditure.

The Court acknowledged, also in 2008, the developments being made at EU and national level that may lead to significant improvements in EU financial management in the future. Two examples in this Annual Activity Report are the ongoing EU budget review process, to which the Court has actively contributed, and the issuing by the Commission of its communication on the 'Tolerable risk of error'.

In the domain of international relations, the Court took the lead in organising discussions of the Contact Committee of the Heads of the EU Supreme Audit Institutions (SAI) on EU budget reform and the Revised Lisbon Strategy, as well as recently hosting a workshop on the role of the EU SAIs in the light of the measures being taken to address the current financial crisis.

The audit environment is fast changing and the Court recognises that it needs to adapt by reforming itself in order to better meet its Treaty obligations and fulfil its mission. A significant step taken in 2008 by the Court to realise its mission and vision was the development of its Audit Strategy for the period 2009 to 2012. The Audit Strategy sets two priority goals: to maximise the overall impact from its audits; and to increase efficiency by making best use of its resources. These goals will guide the Court's work programmes over the period and also its efforts to continuously improve and to address the key challenges and significant opportunities for improvement highlighted by the peer review.

The Court's competent and committed staff plays a central role in carrying out the work of the Court, in contributing to improving financial management as the independent guardian of the financial interests of the citizens. On behalf of the Court and myself I would like to thank all members of staff for their dedication and professionalism during the last year. I would also like to thank in particular our former Secretary General, Mr Michel Hervé, who left the institution at the end of 2008, for his dedication and commitment.

I wish you a pleasant reading of this Annual Activity Report which provides an overview of the Court and an account of its activities in 2008.



Vítor Manuel da Silva Caldeira  
*President*

# MISSION, VISION AND VALUES

## MISSION

The European Court of Auditors is the EU institution established by Treaty to carry out the audit of EU finances. As the EU's external auditor, it contributes to improving EU financial management 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 to improve the management of EU finances.

## VALUES

Independence, integrity and impartiality	Professionalism	Adding value	Excellence and efficiency
Independence, integrity and impartiality for the institution, its Members and staff.	Keeping high and exemplary standards in all professional aspects.	Producing relevant, timely, high-quality reports, based on sound findings and evidence, which address the concerns of stakeholders and give a strong and authoritative message.	Valuing individuals, developing talents, and rewarding performance.
Providing adequate output to stakeholders without seeking instructions or succumbing to pressure from any outside source.	Being involved in EU and worldwide public audit development.		Ensuring effective communication to promote a team spirit.
		Contributing to effective improvement of EU management and to enhanced accountability in the management of EU funds.	Maximising efficiency in all aspects of work.



# THE COURT'S ROLE AND WORK

## THE EU BUDGET IS THE STARTING POINT FOR THE COURT'S AUDIT WORK

The European Union has a budget of approximately 120 billion euro, around 1 % of the gross national income (GNI) of its 27 Member States. Compared to national budgets this is a small share. However, for some Member States funds from the EU play an important role in financing public activities and the total amount is close or equal to the GNI of some Member States. The revenue of the European Union mainly consists of contributions from Member States based on their gross national income (GNI – 65,4 %) and on a measurement connected to value added tax collected by the Member States (VAT – 16,9 %). Customs and agricultural duties (so called traditional own resources – 16,5 %) also represent a significant share of revenue. The composition of the budget has evolved over time, agriculture and cohesion policies being its major components (see Box 1).

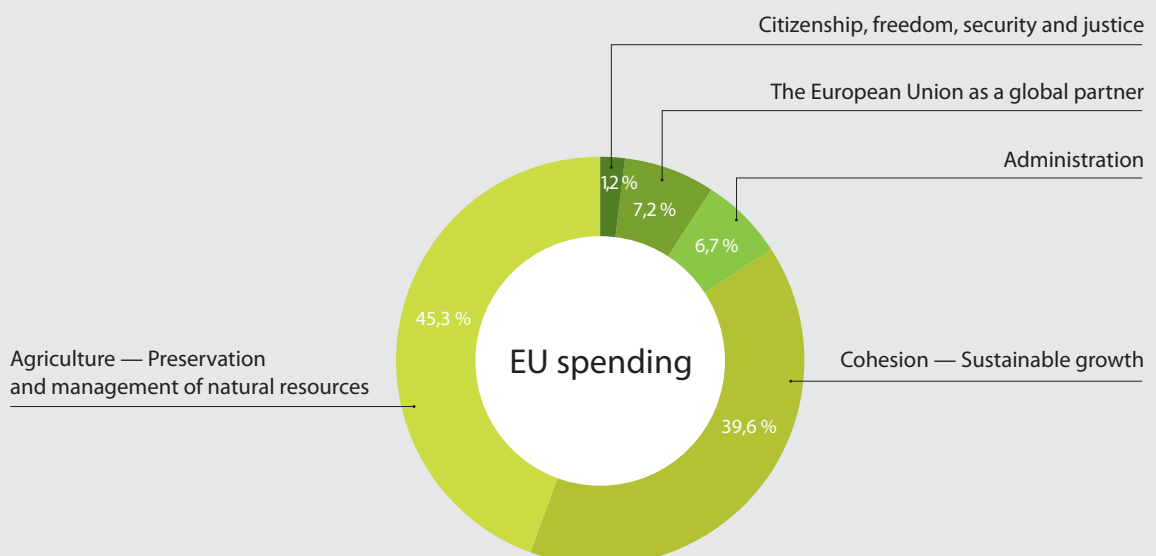
### BOX 1 — WHAT DOES THE EU SPEND ITS MONEY ON?

The EU budget is financed through financial contributions from Member States (based mostly on national GNI) as well as customs and agricultural duties. The EU budget is to a large extent directed to other causes than national budgets, partly due to differences in responsibilities. The Union is for example not responsible for social security systems, usually a large part of national spending.

Since the 1960s agricultural spending, typically through payments to farmers across the Union, has been the largest part of the budget although its share is now decreasing. In 2009 45,3 % of the budget is aimed at preservation and management of natural resources, mainly agriculture and rural development.

Ever since the 1980s a major part of spending has been directed towards cohesion — i.e. regional and social development — co-financing a wide range of projects from road construction in Poland to courses for the unemployed in Spain. In 2009 spending on sustainable growth, of which the lion's share is for cohesion, is planned at 39,6 % of the budget. This heading also includes a great part of the EU funds directed to research.

The EU furthermore spends significant amounts on development and humanitarian aid as well as support to countries close to the Union or candidates to join it. 6,7 % of the budget is needed for financing the administration of the Community institutions.



Source: General Budget of the European Union for the financial year 2009 (OJ L 69, 13.3.2009).

The budget is decided annually — within the context of seven-year financial frameworks — by the Council, i.e. representatives of the Member States, and the directly elected European Parliament. The European Commission proposes the budget and is also responsible for implementing it. A very significant proportion — notably agricultural and cohesion spending — is implemented in cooperation with the Member States. Depending on the spending schemes, national administrations may be responsible for setting spending strategies, selecting beneficiaries and projects and making payments. A specific feature of Community expenditure is the high percentage of payments based on claims submitted by the beneficiaries themselves, be they farmers or project managers throughout the Union.



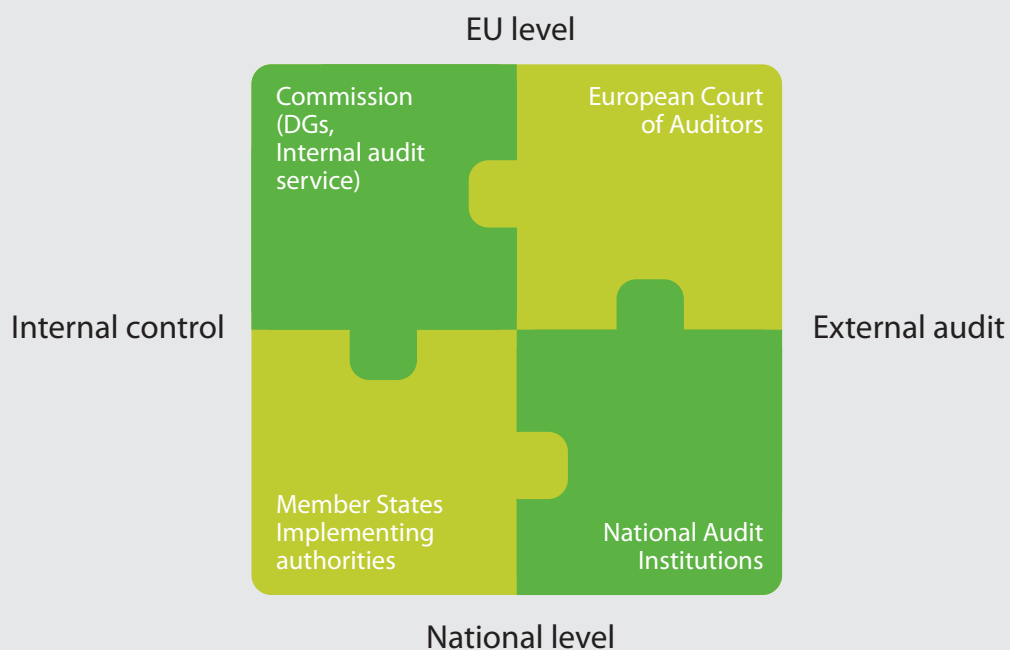
## WHAT IS THE ROLE OF THE COURT ?

In democratic societies there is a need for complete and accurate publicly available information as a basis for debate and decision-making, both to improve financial management and to ensure accountability. The EU, like its Member States, has an external auditor as an independent guardian of the financial interests of the citizens. As the external auditor of the EU, the European Court of Auditors checks that EU funds are correctly accounted for and spent in compliance with the rules and legislation, with due consideration for achieving best value for money, irrespective of where the funds are spent.

The results of the Court's work are used by the Parliament, the Council and the Commission, as well as by Member States, to improve the financial management of the EU budget. The Court's work provides an important basis for the annual discharge procedure whereby the Parliament, basing its decision on recommendations from the Council, decides whether the Commission has met its responsibility for the execution of the previous year's budget. Despite its name, the Court has no judicial powers.

In the areas of the budget where management is shared, Member States cooperate with the Commission in setting up supervisory and control systems — internal control — to ensure that funds are spent properly and in accordance with the rules. Internal control thus has an EU as well as a national dimension. In addition to the work done by the Court, many National Audit Institutions audit European funds that are managed and spent by national administrations.

### OVERVIEW OF INTERNAL CONTROL AND EXTERNAL AUDIT OF THE EU BUDGET



## WHAT DOES THE COURT AUDIT?

The Court carries out three different types of audits<sup>1</sup>: financial, compliance and performance audits. These address the three following questions:

- Do the accounts present fairly, in all material respects, the financial position, results and cash flow for the year, in accordance with the applicable financial reporting framework? (financial audit)
- Are transactions in all material respects, in compliance with the legal and regulatory frameworks which govern them? (compliance audit)
- Is the financial management sound, i.e. are the funds used kept to a minimum (economy), are the results achieved with the least possible resources (efficiency) and have objectives been met (effectiveness)? (performance audit)

## HOW DOES THE COURT REPORT ITS RESULTS?

The Court publishes the results of its audit work in the following types of report:

**Annual reports** — presenting the results of financial audits in the form of statements of assurance on the general budget<sup>2</sup> and the European Development Funds<sup>3</sup>. These two reports are published together in November.

**Specific annual reports** — presenting the results of financial audits on the Communities' agencies and bodies.

**Special reports** — presenting the results of selected performance and compliance audits. Special reports can be published at any time during the year.

In addition, the Court is called upon to provide its **opinion** on new or updated legislation with a financial impact.

<sup>1</sup> For more information about the Court's methodology please consult the manuals on the Court's website ([www.eca.europa.eu](http://www.eca.europa.eu)).

<sup>2</sup> The EC Treaty requires the Court to give a statement — or opinion — on the reliability of the accounts and the legality and regularity of underlying transactions. In this context, underlying transactions are typically payments from the EU budget to final beneficiaries. The annual statement of assurance is generally known by its French acronym DAS ('Déclaration d'Assurance'). Contrary to practice in Member States, the Court gives such a statement on the entirety of the EU budget.

<sup>3</sup> The European Development Funds (EDFs) are the result of both international conventions and agreements between the Community and its Member States and certain African, Caribbean and Pacific (ACP) States, and Council decisions on asso-

## HOW DOES THE COURT AUDIT?

The Court's audit of the EU accounts is carried out in line with International Standards on Audit (ISA), which are applied by the public and the private sectors. Existing international standards on audit do not, however, cover the kind of compliance audit undertaken by the Court to the same extent. The Court takes an active part in the development of international standards by standard-setting bodies (INTOSAI, IFAC)<sup>4</sup> alongside national audit institutions.

In order to provide assurance as to whether the payments comply with legal and regulatory frameworks, the Court draws on the results both of its examination of supervisory and control systems, intended to prevent or detect and correct errors of legality and regularity, and of a sample of the transactions (payments) themselves (see [Box 2](#)). When systems are tested and found to be reliable, then fewer transactions need to be audited by the Court in order to come to a valid conclusion on their legality and regularity. Other sources, such as the work of other auditors, are also used to support the Court's conclusions.

In performance audit, the Court uses a variety of audit methodologies to assess management and monitoring systems and information on performance against criteria derived from legislation and the principles of sound financial management.

When selecting which performance audits to carry out, the Court aims to identify audit subjects which are likely to yield high impact in terms of identifying potential improvements in the economy, efficiency and effectiveness of EU spending.

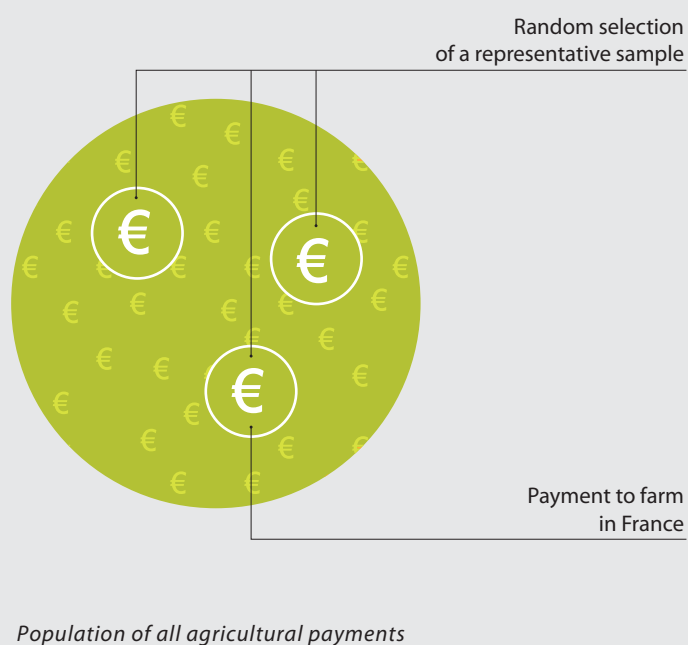
ciation of overseas countries and territories (OCT). The Commission manages most of the expenditure in association with ACP countries, partly through EuropeAid (see the policy area group External relations, development and enlargement) and partly through Delegations in the recipient countries. The investment facility part of the EDFs is managed by the European Investment Bank (EIB) and is not included in the Court's audit mandate.

<sup>4</sup> INTOSAI: International Organisation of Supreme Audit Institutions; IFAC: International Federation of Accountants.

## BOX 2 — THE COURT'S ON-THE-SPOT AUDITS OF PAYMENTS FROM THE EU BUDGET

The Court does not have the resources to audit in detail all the transactions that are funded by the EU budget. In the framework of the DAS, it therefore uses statistical sampling techniques to provide a result which is representative of the population as a whole. This involves randomly selecting a representative sample of underlying transactions from all areas of the Union budget, for example agriculture, for detailed testing. The Court traces these transactions down to the final recipients of the aid, for example a farmer in France. The Court then performs checks on the spot, such as measuring the size of the farmland, to verify the compliance of the claim with reality.

The statistical nature of the Court's sample means the results can be extrapolated over the population in question, i.e. a specific revenue or expenditure area, and, together with information arising from the evaluation of systems, used as a basis for an overall audit opinion. In practice, the Court compares the results of its tests of statistical samples against what it considers an acceptable limit — or materiality threshold — to determine the nature of the opinion to be given.



# GOVERNANCE AND ORGANISATION

## STRUCTURE OF THE ECA

The Court of Auditors operates as a collegiate body of 27 Members, one from each Member State. All audit reports and opinions are adopted by the college. It also takes decisions concerning the Court's organisation and administration.

The Court organises itself around five audit groups, to which Members are assigned. As the organisation chart shows (see page 17), there are four sectoral groups, covering different parts of the budget (Preservation and management of natural resources — Structural policies, transport, research and energy — External actions — Revenue, banking activities, administrative expenditure, Community institutions and bodies and internal policies).

A fifth audit group (CEAD or Coordination, Communication, Evaluation, Assurance and Development) is responsible for 'horizontal' matters such as the coordination of the Statement of Assurance, quality assurance, the development of the Court's audit methodology and communication of the Court's work and output.

Each group is chaired by a Dean, elected by the Members of the group from amongst their number for a renewable two-year term.

An Administrative Committee, composed of Members representing audit groups, prepares all administrative matters for a formal decision by the Court.



## THE MEMBERS

The Members of the Court are appointed by the Council, after consultation with the European Parliament, following nomination by their respective Member States. Members are appointed for a renewable term of six years. They are required to perform their duties in complete independence and in the general interest of the European Union.

Apart from being part of the college, taking the final decisions on audits and opinions as well as on broader strategic and administrative issues, each Member is responsible for his or her own tasks, primarily within auditing. The audit work itself is in general carried out by the auditors in the audit units coordinated by the Member responsible, with the assistance of a private office. He or she then presents the report at group and Courts levels and, once adopted, to the European Parliament, Council and other relevant stakeholders.

On 1 January 2008 three new Members, Mr Michel Cretin (France), Mr Harald Noack (Germany) and Mr Henri Grethen (Luxembourg), joined the Court in replacement, at the expiry of their terms of office, of their predecessors. In addition, the mandates of four Members, Mr Hubert Weber (Austria), Mr Maarten B. Engwirda (Netherlands), Mr David Bostock (United Kingdom) and Mr Ioannis Sarmas (Greece), were renewed by the Council for a term of six years.

## THE PRESIDENT

The European Court of Auditors is headed by a President who is elected for a renewable term of 3 years by the Members from amongst their number. His or her role is that of *primus inter pares* — first amongst equals. He or she chairs the Court meetings, ensures that Court decisions are implemented and that the institution and its activities are soundly managed.

The President represents the Court in its external relations, in particular with the discharge authority, the other EU institutions and the Supreme Audit Institutions of the Member and beneficiary States.

On 16 January 2008, Mr. Vítor Manuel da Silva Caldeira, the Portuguese Member, was elected as the Court's 10th President.



## THE SECRETARY-GENERAL

The Secretary-General is the most senior member of staff in the institution and is appointed by the Court for a renewable period of 6 years. He or she is responsible for the management of the Court's staff and administration, including professional training and a translation service comprising one unit for each official language, except Irish (22 languages). The Secretary-General is also responsible for the Court's secretariat.

The former Secretary-General, Mr Michel Hervé, left the Court on 31 October 2008. Mr John Speed was appointed acting Secretary-General on 9 October 2008.

On 10 March 2009 the Court appointed Mr. Eduardo Ruiz García to be its new Secretary-General as from 16 March 2009.

## THE STAFF OF THE COURT

The European Court of Auditors has in the 2008 Budget a total of 858 allocated posts (on 31 December 2008). The Court's audit staff has a broad range of professional backgrounds and experience from both the public and private sectors, including accountancy, financial management, internal and external audit, law and economics. Like all other EU institutions the Court employs nationals from all Member States and they are subject to the EU's Staff Regulations.



# EUROPEAN COURT OF AUDITORS 2009

## President



Vitor Manuel  
da SILVA CALDEIRA (PT)



Hubert  
WEBER (AT)



Maarten B.  
ENGWIRDA (NL)



Máire  
GEORHEGAN-QUINN (IE)



David  
BOSTOCK (UK)



Morten Louis  
LEVYSOHN (DK)



Ioannis  
SARMAS (EL)



Július  
MOLNÁR (SK)



Vojko Anton  
ANTONČIČ (SI)



Gejza Zsolt  
HALÁSZ (HU)



Jacek  
UCZKIEWICZ (PL)



Josef  
BONNICI (MT)



Irena  
PETRUŠKEVIČIENĖ (LT)



Igors  
LUDBORŽS (LV)



Jan  
KINŠT (CZ)



Kersti  
KALJULAIK (ET)



Kikis  
KAZAMIAS (CY)



Massimo  
VARI (IT)



Juan  
RAMALLO MASSANET (ES)



Olavi  
ALA-NISSILÄ (FI)



Lars  
HEIKENSTEN (SE)



Karel  
PINXTEN (BE)



Ovidiu  
ISPIR (RO)



Nadejda  
SANDOLOVA (BG)



Michel  
CRETIN (FR)



Harald  
NOACK (DE)



Henri  
GRETHEN (LU)

## PRESIDENCY

Vítor Manuel da SILVA CALDEIRA  
President

Supervision of the performance  
of the Court's work

Relations with the Community  
institutions

Relations with SAsI and  
international audit organisations

Legal matters

Internal audit

## ORGANISATION CHART

### AUDIT GROUP I

PRESERVATION AND MANAGEMENT  
OF NATURAL RESOURCES

Gejza Zsolt HALÁSZ, Dean  
Hubert WEBER  
Július MOLNÁR  
Kikis KAZAMIAS  
Olavi ALA-NISSILÄ  
Michel CRETIN

EAGF — financial audit

EAFRD — financial audit

Performance Unit A

Performance Unit B

Performance Unit C

Fisheries, Environment, Health

### AUDIT GROUP II

STRUCTURAL POLICIES, TRANSPORT,  
RESEARCH AND ENERGY

David BOSTOCK, Dean  
Kersti KALJULAID  
Massimo VARI  
Ovidiu ISPIR  
Harald NOACK  
Henri GRETHEN

Structural policies — financial audit

Structural policies — performance audit

Transport, research and energy —  
financial audit

Transport, research and energy —  
performance audit

### AUDIT GROUP III

EXTERNAL ACTIONS

Maarten B. ENGWIRDA, Dean  
Máire GEOGHEGAN-QUINN  
Jacek UCZKIEWICZ  
Jan KINŠT  
Karel PINXTEN

Cooperation with developing countries  
(general budget  
of the European Union)

Pre-accession and neighbourhood  
policies

European Development Funds (African,  
Caribbean and Pacific  
States)

### AUDIT GROUP IV

REVENUE, BANKING ACTIVITIES,  
ADMINISTRATIVE EXPENDITURE,  
COMMUNITY INSTITUTIONS AND  
BODIES AND INTERNAL POLICIES

Irena PETRUŠKEVIČIENĖ, Dean  
Morten Louis LEVYSOHN  
Ioannis SARMAS  
Igorš LUDBORŽS  
Juan RAMALLO MASSANET  
Nadejda SANDOLOVA

Revenue of the European Union

Administrative expenditure of the  
institutions of the European Union

Internal policies of the European  
Union

Borrowing, lending and banking activities

Community agencies and other  
decentralised bodies

### CEAD GROUP

COORDINATION, COMMUNICATION,  
EVALUATION, ASSURANCE  
AND DEVELOPMENT

Josef BONNICI  
Member responsible for the DAS, Dean  
Vojko Anton ANTONČIČ  
Member responsible for Audit  
methodology and Quality control  
Lars HEIKENSTEN  
Member responsible for communication  
Olavi ALA-NISSILÄ (AG I)  
Kersti KALJULAID (AG II)  
Jacek UCZKIEWICZ (AG III)  
Morten Louis LEVYSOHN (AG IV)

Audit methodology and support

Quality control

Communication and reports

Audit supervision and support  
for financial and compliance audit

Reliability of the accounts and  
of management representations

### SECRETARIAT- GENERAL

Eduardo RUIZ GARCÍA  
Secretary-General

Human resources

IT and telecommunications

Finance and administration

Translation

# OVERVIEW OF AUDIT REPORTS AND OPINIONS<sup>5</sup>

## ANNUAL REPORTS ON THE 2007 FINANCIAL YEAR

### ANNUAL REPORT ON THE IMPLEMENTATION OF THE EU BUDGET

The accounts in general give a fair presentation, in all material respects, of the EU's financial position and results. The qualifications expressed in last year's annual report on the reliability of the 2006 accounts are no longer necessary for 2007, thanks to the improvements that have taken place.

The Court gives unqualified (clean) opinions on the legality and regularity in certain areas, such as the Union's administration. However, for most spending areas the Court cannot provide a clean opinion. Although most of the payments the Court checks are made in compliance with the rules, the Court still finds that payments made to final beneficiaries, such as farmers and project promoters running EU-funded projects, have too high a level of error. The Court estimates that the level of error in these policy area groups are between 2 % and 5 % except for cohesion policies, where it is at least 11 %. The estimated error rates in some spending areas, notably those previously covered under the headings 'internal policies' and 'external actions', have fallen — however not by enough to affect the overall picture.

The result does not imply that cases of non-compliance are the result of fraud, nor that most transactions in these areas are illegal and/or irregular.

### THE SITUATION IN SPECIFIC AREAS

In three areas, administrative and other expenditure, economic and financial affairs and revenue, the results of the Court's testing of representative samples of transactions show low estimated levels of error.

In the largest area of Union spending — agriculture and natural resources — the estimated overall error rate is still material. Rural development, with its often complex rules, accounts for a disproportionately large part of this error rate. For European Agricultural Guarantee Fund (EAGF) expenditure the Court estimates the value of the error rate to be slightly below the materiality level of 2 %.

As in previous years, cohesion policies, representing more than a third of the budget, is the area most affected by errors. Following the Court's sample estimate, at least 11 % of the total amount reimbursed should not have been reimbursed.

<sup>5</sup> The intention of this section is to introduce, rather than to provide a summary of, the Court's reports and opinions. Readers are requested to refer to the full texts as adopted by the Court — available on the Court's website ([www.eca.europa.eu](http://www.eca.europa.eu)) — for further details.

## MOVING FORWARD: IMPROVING SUPERVISION AND CONTROL

The high level of error in areas like cohesion is in part due to the inherent risk associated with the many beneficiaries claiming EU funds according to complex rules and regulations. The weaknesses in the design and operation of systems also contribute to the problems identified.

Most EU-funded programmes have provisions for corrective actions to recover detected errors on a multiannual basis. However, there is a lack of information on the impact of these actions. This means that it is not possible to conclude whether they are effective in decreasing the level of illegal and/or irregular expenditure.

The Commission has since 2000 been working on a reform programme to improve the management of the EU budget, including a 2006 action plan for this purpose. By the end of 2007 the Commission had introduced two thirds of the sub-actions in the action plan. It is too early, however, to assess the impact of these measures.

Improved high level controls — such as Commission supervision of Member State controls — cannot compensate for inadequate lower level controls, such as on-the-spot checks. The benefits of increasing the number of the latter, however, have to be balanced against the costs. The Court recommends that the political authorities of the Union define what a reasonable level of risk of error would be.
















To decrease the level of error in EU payments the Court recommends simplified rules and regulations, streamlining internal control arrangements and better monitoring and reporting.









### BOX 3 — SUMMARY OF THE LEGALITY AND REGULARITY OF UNDERLYING TRANSACTIONS BY AREA OF EXPENDITURE

The table summarises the overall assessment of supervisory and control systems, as outlined in the relevant chapters of the 2007 Annual Report, and gives the broad results of the Court's testing of representative samples of transactions.

Systems are classified as 'partially satisfactory', where some control arrangements have been judged to work adequately whilst others have not. Consequently, taken as a whole, they might not succeed in restricting errors in the underlying transactions to an acceptable level.

Specific assessments of the 2007 Annual Report	Assessment of systems	Error range
Cohesion: 42 billion euro		
Agriculture and natural resources: 51 billion euro		
External aid, development and enlargement: 6 billion euro		
Research, energy and transport: 4,5 billion euro		
Education and citizenship: 1,5 billion euro		
Administrative and other expenditure: 8 billion euro		
Economic and financial affairs: 0,5 billion euro		
Revenue		

Assessment of supervisory and control systems	 Effective	 Partially effective	 Not effective
Range in which the error rate (ER) is situated	 ER < 2 % (below materiality)	 2 % < ER < 5 %	 ER > 5 %

## THE 2007 AUDIT OPINION — THE EDFs

The accounts of the European Development Funds (EDFs) present fairly, in all material respects, the EDF's financial position and the results. The opinion on the legality and regularity of EDF transactions is qualified in respect of payments.

## SPECIFIC ANNUAL REPORTS

A further 28 specific annual reports, pertaining to the European agencies and other decentralised bodies, were adopted in 2008.

### BOX 4 — INTERPRETING AUDIT OPINIONS

Auditors can give the following kinds of opinions:

- an **unqualified opinion** (also called 'clean') when there is evidence that the accounts are reliable or the underlying transactions, i.e. payments, are legal and regular in all material aspects;
- an **adverse opinion** when the level of error in the underlying transactions is material and pervasive, or the accounts are not reliable;
- a **disclaimer of opinion** if auditors are unable to obtain sufficient appropriate audit evidence on which to base an opinion, and the possible effects are both material and pervasive;
- a **qualified opinion** when an unqualified opinion cannot be expressed but the effect of any disagreement or limitation on scope is not so material or pervasive as to require an adverse opinion or a disclaimer of opinion.

## SPECIAL REPORTS PUBLISHED IN 2008

The Court published a total of 12 special reports in 2008. With concerns to improve readability and user-friendliness of its reports, the Court decided to publish special reports in a new format and make them directly available from the Court's website ([www.eca.europa.eu](http://www.eca.europa.eu)) while notifying their publication in the Official Journal. As in previous years the reports examined financial management issues in a wide range of areas – from the efficiency of the European Solidarity Fund (SR 3/2008) to EU support for the public storage operations of cereals (SR 11/2008).

The Court's work identifies many different types of problems, with diverse consequences, and formulates recommendations aiming at improving financial management, efficiency and effectiveness.

Performance audits are selected and designed at the discretion of the Court, based on criteria such as risk analysis, potential for improvement and public interest. Their complex and detailed nature means they generally require more than one year to complete.

The Court's special reports published in 2008 by policy area addressed:

### Preservation and management of natural resources

- Whether the process which resulted in the setting of national milk quotas for Member States who joined the EU in 2004 allowed for operational and timely administrative and control systems, leading to sound structures for applying the EU scheme (SR 4/2008).
- Whether the objectives of the cross-compliance policy under the new CAP (Common Agricultural Policy), which impose certain rules in areas of environment, food safety, animal and plant health and animal welfare, were defined in a specific, measurable, relevant and realistic way and whether they had led to modified farming practices (SR 8/2008).
- Whether EU support for the public storage of cereals, aiming at stabilising related markets and ensuring a fair standard of living for the agricultural community, was provided in an economic way (SR 11/2008).



### Structural policies, transport, research and energy

- Whether Community financing of major projects under the Cohesion Fund was adequately prepared by the Commission and whether the *ex post* evaluation of major projects generated results that were useful for future decision-making (SR 1/2008).
- Whether the European Union Solidarity Fund (EUSF) had achieved its aims of providing a rapid, efficient and flexible response to Member States suffering from natural disasters (SR 3/2008).
- Whether the Commission had planned, monitored and evaluated the IEE programme (Intelligent Energy for Europe Programme, designed to promote energy efficiency, the use of renewable energy sources and energy diversification) adequately, and whether the Executive Agency that runs the programme had made positive changes to the management of the programme (SR 7/2008).
- Whether ISPA (Instrument for Structural policies for Pre-Accession, one of the instruments assisting candidate countries of Central and Eastern Europe in preparation for accession in the period 2000–2006) was adequately prepared and was used following a coherent strategy. The Court furthermore assessed whether ISPA projects had been implemented as planned, were contributing to the beneficiary countries' compliance with EU environmental standards and improved the Trans-European network (SR 12/2008).



### External actions

- Whether the Commission adequately identified the rehabilitation needs of those affected by the Tsunami and Hurricane Mitch disasters and whether the aid was implemented in a timely and efficient matter (SR 6/2008).
- Whether the EU support to new direct EU border neighbours (Belarus, Moldova and Ukraine), following the enlargements of 2004 and 2007, improved their capacity in areas of border control, migration/asylum management, the fight against organised crime, and judiciary and good governance. The Court also assessed the reasons for possible underperformance and to what extent the Commission had a process in place to take into account lessons learned for continued assistance in this field (SR 9/2008).
- Whether the EU assistance in contributing to improving health services in Sub-Saharan Africa (in the context of the EC's commitments to poverty reduction and the Millennium Development Goals (MDG)) had been effective. The Court assessed whether financial and human resources allocated to the health sector reflected the EC's policy commitments, whether the Commission had speeded up the implementation of this aid and whether the Commission had used various instruments to assist the health sector in an effective way (SR 10/2008).

### Revenue, banking activities, administrative expenditure, Community institutions and bodies and internal policies

- Whether the management of the Binding Tariff Information, which promotes uniform applications of customs policy and ensures correct duty levies, was effective (adequate and applying legal provisions) (SR 2/2008).
- Whether the EU 'regulatory agencies' had been able to implement the EU's major administrative and financial reforms aiming at gearing management towards getting results. The Court considered whether the agencies had planned their activities adequately, introduced sound monitoring tools for these activities and properly reported on their activities and evaluated their results (SR 5/2008).

**SPECIAL REPORTS PUBLISHED IN 2008<sup>6</sup>**

- 1/2008 The procedures for the preliminary examination and evaluation of major investment projects for the 1994–1999 and 2000–2006 programming periods (OJ C 81, 1.4.2008)
- 2/2008 Binding Tariff Information (BTI) (OJ C 103, 24.4.2008)
- 3/2008 The European Union Solidarity Fund: how rapid, efficient and flexible is it? (OJ C 153, 18.6.2008)
- 4/2008 The implementation of milk quotas in the Member States which joined the European Union on 1 May 2004 (OJ C 185, 22.7.2008)
- 5/2008 The European Union's agencies: Getting results
- 6/2008 The European Commission Rehabilitation Aid following the Tsunami and Hurricane Mitch
- 7/2008 Intelligent Energy 2003–2006
- 8/2008 Is cross compliance an effective policy?
- 9/2008 The effectiveness of EU support in the area of freedom, security and justice for Belarus, Moldova and Ukraine
- 10/2008 EC Development Assistance to Health Services in Sub-Saharan Africa
- 11/2008 The management of the European Union support for the public storage operations of cereals
- 12/2008 The Instrument for Structural Policies for Pre-accession (ISPA), 2000–2006

<sup>6</sup> Special reports are available from the Court's website or by filling in an electronic order form on EU Bookshop.

## OPINIONS PUBLISHED IN 2008

Another contribution by the Court to improving the financial management of EU funds is provided via opinions on proposals or financial management issues. These opinions are required as part of the process of adopting financial legislation<sup>7</sup>, or can be delivered at the request of any of the EU institutions<sup>8</sup>. The Court of Auditors may also produce opinions on its own initiative.

The Court's opinions cover issues relating to specific areas of EU expenditure, e.g. on amending the European Aviation Safety Agency's Financial Regulation (Opinion No 1/2008), as well as on issues relating to the EU's revenue, e.g. on amending the regulation on the system of the Communities' own resources (Opinion No 2/2008).

Opinions draw on the Court's expertise with respect to EU financial management developed over years of audits; in some cases specific audits or opinions are referred to. For example, in the opinion on a new financial regulation of the European Joint Undertaking for ITER (International Thermonuclear Experimental Reactor), the Court refers to its 2006 Annual Report, where it had already drawn the attention to high risks associated with legality and regularity of payments related to research grants.

<sup>7</sup> Article 279 of the EC Treaty.

<sup>8</sup> Article 248(4) of the EC Treaty.

## OPINIONS ADOPTED IN 2008<sup>9</sup>

- Opinion No 1/2008** on a proposal for a Decision of the Management Board of the European Aviation Safety Agency amending the Agency's Financial Regulation
- Opinion No 2/2008** on a proposal for a Council Regulation amending Regulation (EC, Euratom) No 1150/2000 implementing Decision 2000/597/EC, Euratom on the system of the Communities' own resources (OJ C 192, 29.7.2008)
- Opinion No 3/2008** of the Court of Auditors of the European Communities on a proposal for a Council Regulation amending Regulation (Euratom, ECSC, EEC) No 549/69 determining the categories of officials and other servants of the European Communities to whom the provisions of Article 12, the second paragraph of Article 13 and Article 14 of the Protocol on the Privileges and Immunities of the Communities apply (OJ C 199, 5.8.2008)
- Opinion No 4/2008** on the Financial Regulation of the European Joint Undertaking for ITER and the Development of Fusion Energy (Fusion for Energy)
- Opinion No 5/2008** on a proposal for a Council Regulation amending the conditions of employment of other servants of the European Communities (OJ C 8, 13.1.2009)

<sup>9</sup> The Court decides whether to publish its opinions publicly on a case-by-case basis, depending on general interest and considerations of confidentiality. Most opinions of the Court have been published in the *Official Journal of the European Union* and are available on the Court's website.

# FOLLOW-UP AND IMPACT

Public auditing is a key component in ensuring accountability, and a useful contribution to public debate. It also plays a key role in helping modern democracies run efficiently. Through audit activities the ultimate stakeholders, in this case the citizens of Europe, are being informed about whether their money is being spent in a correct and useful way.

The Court's audits provide information directly to decision-makers in the institutions concerned — in the European context, primarily the Parliament, the Council, the Commission and the Member States. They can take action on this information, with or without reference to the Court's audit conclusions.

While the main impact of the Court's audit is through its published reports and opinions, there is also impact during the audit process. In particular, all audits involve the presentation of detailed findings, sent to the auditee to confirm the veracity of the Court's observations. The final report text is also subject to a 'contradictory procedure'. The auditee's — mainly the Commission — replies are published together with the reports. In many of these replies the auditee recognises the problems identified by the Court and sets out steps that it intends to take to address them.

Once the auditing work is finished and a report has been published it is analysed and used by the Parliament and Council, in exercising their political oversight over the use of the budget. The Court's reports provide a basis for the Council's recommendation and Parliament's decision on the annual discharge of the budget.

Examples of this can be found in the discharge procedure for the 2007 budget, where the European Parliament calls upon the Commission and Member States to take measures to clarify and simplify the regulations, leading to reduced risks of error, streamlined controls and cost reductions. These requests apply to areas of shared management such as in agricultural and cohesion spending as well as direct management spending such as research or culture and education.

Examples of the impact of the Court's work can be found in actions taken by the Commission as a result of the discharge resolution on the 2006 Budget (mainly impact in 2008):

- **In the area of Agricultural expenditure:** the adoption of new guidelines for certification bodies that are being applied for 2007 and onwards.
- **In the area of Cohesion:** the simplification of rules and eligibility criteria for the 2007–2013 period (flat rates for overheads, establishment of eligibility rules at national levels, ...).
- **In the area of External Actions:** the adoption of new joint (EC–UN) visibility guidelines in 2008, with the development of common terms of reference for verifications; the improvement by the Commission of the functionalities of a common information system for projects; the adoption of standard terms of reference for expenditure verifications for grants and fee based service contracts of external action expenditure at the level of project implementing organisations.
- **In the area of Internal Policies:** the improvement of information available to beneficiaries through a specific website (CORDIS); the adoption of an Audit Strategy for 2007–2013 (Commission) in order to correct errors not detected during desk-reviews; simplification of cost eligibility (personnel and indirect costs).

Source: Report from the Commission to the EP and Council on the follow-up of discharge 2006.



Special reports are also taken into consideration during the discharge procedure. However, due to the fact that they are published throughout the year they have normally been presented and discussed at an earlier stage at Parliament and Council meetings.

The impact of audit reports can be increased if they are taken up by the relevant media, stimulating wider attention and debate. The Court's Annual Report will usually get significant media coverage, but several of its special reports have also been followed with interest by the press.

One example of this was the report on cross compliance (SR 8/2008) which was published in the period of the adoption of the health check of the Common Agricultural Policy (CAP). Due to the importance of cross compliance and its central role in the CAP and due to the timing of the publication, it received wide coverage in many different types of media: television, newspapers, specialised press, internet publications (press, agricultural organisations, MEP websites, internet blogs, etc.). Indeed, it was intensively discussed in the European Parliament, which has included almost all of the Court's recommendations in its draft discharge report.

Follow-up information on the Court's previous observations is given in the respective chapters of the Court's Annual Report. The most common observation made by the Court in its latest Annual Report (2007) is that while some action has been taken the weaknesses previously identified remain at least partly unresolved.

The Court is currently developing its analysis of the impact of its work — both audits and opinions — over longer periods of time. As an example of this, the Court uses a Commission database on its follow-up of audit recommendations as a base for assessing the impact of its audits. The assessment might lead to audit work consisting of separate in-depth audit tasks, leading to further findings and recommendations. These can be included in either a subsequent special report covering the audit area, or a report on the follow-up and impact of recommendations on financial management.

# THE COURT'S VIEW

## THE CONCEPT OF TOLERABLE RISK OF ERROR

Within the context of developing a Community internal control framework, the Court indicated in its Opinion No 2/2004 that it is for the Union's political institutions to take a decision on the level of risk which they are prepared to tolerate when approving EU spending policies.

The Court suggested that the Parliament and Council should reach agreement on the trade-off between the costs and benefits of controls, in other words, on a tolerable risk of residual errors in expenditure. The cost of controls should be in proportion to the benefits that they bring in both monetary and political terms.

Since the publication of this opinion, both the European Parliament and the Council have indicated their wish in their discharge resolutions to take the subject forward and move towards a common understanding of a tolerable level of risk. At the end of 2008 the Commission issued a communication 'Towards a common understanding of the concept of tolerable risk of error'. The Court welcomed this communication and addressed a reply to the Commission in which it pointed to some limitations and identified key aspects to be reflected upon for the future development of this subject.

The Commission has noted in its communication that any decision on a tolerable risk of error should be based, among other things, on the potential for further simplification. The Court similarly underlines the importance and benefits of further simplification and its potential impact on the reduction of errors/irregularities.





The concept of a 'Tolerable Risk of Error' needs to be clearly distinguished from that of the 'Materiality Threshold' as defined and applied by the Court, which must remain the responsibility of the external auditor<sup>10</sup>.

The Court is of the view that analysis of the costs and benefits of expenditure programmes could inform not just discussions about 'tolerable risk' but also a review of the regulatory regime and management structure for the programmes concerned. In this context, the pertinent question might not be whether there is a 'tolerable risk of error' but whether the risk of error is so great that the particular scheme or programme in question should be discontinued or substantially changed. Indeed, the concept of 'tolerable risk' should also be given specific consideration when designing expenditure (and revenue) schemes or programmes.

It would be useful if expenditure programmes, at the time of adoption, also gave sufficient information on the risks associated with such programmes and the costs of the intended controls designed to reduce these risks to a tolerable level. In this way, decisions would be taken in a more informed manner, explicitly considering the risks and costs involved. The budget review exercise might provide an opportunity to reflect on this topic, as suggested by the Court in its response to the Commission's communication 'Reforming the budget, changing Europe'<sup>11</sup>.

<sup>10</sup> The concept of 'materiality' is defined in International Standard on Auditing ISA 320 as: 'Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.'

<sup>11</sup> See 'Response by the European Court of Auditors to the Commission's communication Reforming the Budget, Changing Europe', April 2008.

# THE COURT'S WORK IN 2008 AND BEYOND

Every year the Court outlines its future audit work in a work programme which is presented to the Budgetary Control Committee of the European Parliament and available to the public on the Court's website. The work programme informs stakeholders about new and ongoing audits as well as upcoming reports. The Court monitors the implementation of the work programme in order to have a basis for improvement in the following years.

In 2008 the number of special reports and opinions was similar to previous years. The annual reports on the general budget and the European Development Fund were published as planned.

Final outputs	2004	2005	2006	2007	2008
Number of special reports	10	6	11	9	12
Annual Reports (EDF included)	1	1	1	1	1
Specific annual reports	23	20	23	29	28
Opinions	2	11	8	9	5

## AUDIT STRATEGY

The audit strategy is based on the Court's strategic objectives.

STRATEGIC OBJECTIVES			
Professionalism	Output	Stakeholders	Learning and growth
Robust methodology, appropriate audit strategy, development of public audit practice, common auditing standards and audit criteria on EU funds, collaboration with EU SAIs, effective 'Community control framework'	Selection of appropriate audit topics, timeliness, clarity and readability of reports, quality of performance audits, increase impact of reports	<p>Increase relations with auditees to foster the understanding of the audit process and to achieve a wider acceptance of the audit results</p> <p>Development of contacts with the European Parliament and the Council as budget and discharge authorities</p> <p>Effective communication with EU citizens</p>	<p>Learning from the peer-review exercise in order to strengthen and develop the organisation, the methods, the processes and the output and to maximise efficiency</p> <p>Implementation of effective and dynamic human resources policies</p> <p>High-quality professional training; upgrading infrastructure</p> <p>Implementation of IT policies</p>



### AUDIT STRATEGY 2009–2012 GOALS

**Maximising** the overall **impact** from our audits  
**Increasing efficiency** by making best use of resources

The Court performs audits and produces reports designed to improve the management of EU funds and protect the financial interests of the EU on behalf of its citizens. The main elements considered when shaping the strategy governing the Court's operations are as follows.



To realise its mission and vision, in 2008 the Court developed an Audit Strategy for the period 2009–2012. A summary of this is available on the Court's website.

The Court's strategy is designed around two priority goals: maximising the overall impact from its audits; and increasing efficiency by making best use of resources. These goals will guide the Court's work programmes over the period and its efforts to continuously improve.

The Court intends to **maximise the overall impact** of its audits over the period by:

- selecting and designing audits which focus on topics related to areas of risk and which are of greatest interest to stakeholders;
- continuing to produce robust audit conclusions and useful recommendations for improvement, and following them up;
- carrying out a broader range of audits and producing new audit products to complement the current annual and special reports;
- increasing the number and improving the timeliness and user-friendliness of its special reports; and
- further developing its relations with key stakeholders, including the relevant Parliamentary Committees, media and public at large.

The Court intends to **increase efficiency** by making best use of resources during the period by:

- improving governance
- implementing effective and dynamic human resources policies
- rationalising audit tasks
- enhancing IT tools
- developing professional skills
- developing relations with auditees

## AUDIT WORK TO BE CARRIED OUT IN 2009<sup>12</sup>

As in previous years, the work programme for 2009 comprises annual reports setting out the results of financial audits that the Court is required to carry out by the Treaty and other EU legislation and special reports setting out the results of its performance audits addressing specific issues related to EU financial management.

For 2009, the Court has identified a number of audit themes related to policy developments and management issues.

As regards EU policy developments, the following have been identified:

- growth and jobs;
- climate change and sustainable development;
- Europe as a world partner; and
- better regulation.

In addition, in relation to the management of EU funds, the Court has highlighted the following topics as meriting special attention:

- the closure of the 2000–2006 spending programmes, particularly the Structural Funds;
- accountability and reform of the EU;
- progress of the Commission's action plan towards an integrated internal control framework, including the concept of tolerable risk; and
- management and control measures at Member State level.

Starting in 2009, the Court will aim to address these themes through its annual reports, special reports and the introduction of some new products (as described below).

The Court intends to publish a number of special reports and related new products based on the portfolio of selected audit tasks that it carries out.

Such selected audit tasks generally take more than one year to plan, undertake and report on. Therefore, most of the reports published in a given year relate to audit tasks started in previous years.

**Box 5** presents the selected audit tasks that have been completed or are near completion and are likely to be published as **special reports** during 2009 or early 2010.

<sup>12</sup> For a more complete and detailed account of the Court's future work please refer to the Court's 2009 work programme, available on our website ([www.eca.europa.eu](http://www.eca.europa.eu)).

## BOX 5

## Preservation and management of natural resources

- European Union food aid for deprived persons: an assessment of the objectives, the means and the methods employed
- Promotion measures for agricultural products
- LIFE nature projects
- Management instruments for milk markets and products

## Structural policies, transport, research and energy

- The European Union's public health programme 2003–2007
- Effectiveness of Structural Measures spending on waste water treatment for the 1994–1999 and 2000–2006 programme periods
- The management of the Galileo programme's development and validation phase
- 'Networks of excellence' and 'Integrated projects' in Community Research policy: did they achieve their objectives?
- Vocational training actions for women co-financed by the European Social Fund

## External actions

- CARDS projects in the area of Justice and Home Affairs for the western Balkans
- Non-state actors' involvement in EC development cooperation
- European Commission management of pre-accession assistance to Turkey
- Commission aid implemented through United Nations organisations
- Support to regional integration and trade in East and West Africa

## Revenue, banking activities, administrative expenditure, Community institutions and bodies and internal policies

- Banking measures in the Mediterranean area in the context of the MEDA programme and previous protocols
- Commission's Treasury Management
- Personnel selection activities carried out by the European Personnel Selection Office
- Executive agencies
- Annual report on the operational efficiency of the management of the European Central Bank
- The mobility scheme of the Leonardo da Vinci programme
- Simplified procedures for release to free circulation

Furthermore, as foreseen in its audit strategy, the Court will produce **new products** based on its portfolio of selected audit tasks:

- First, a dedicated report on the **follow-up** of the Court's findings, which will bring together in one place reporting on the implementation of recommendations that was previously found in the annual report on the implementation of the budget and special reports.

Following up recommendations is a key way in which the Court can actively contribute to improving financial management. The report will examine how far our recommendations have been followed and, where appropriate, will include an assessment of the effectiveness of the measures taken. This report is expected to be published around the time of the annual report.

- Secondly, the Court intends to produce a report identifying **high-risk areas** with respect to the financial management of EU funds. The report is being prepared for, and as a help to, the new Commission which is due to take up its responsibilities towards the end of the year.

# LEARNING AND IMPROVING

## ACTION PLAN AND PEER REVIEW

During 2006 the Court had carried out a self-assessment exercise, which identified its strengths and weaknesses. This was followed by an action plan to address the weaknesses. The action plan covered a series of measures which led to:

- the adoption of the Court's vision, mission, strategic objectives and planning;
- the development of internal performance indicators, which are gradually being implemented (see section below);
- the adoption of a strategy for internal communication, which is being implemented and has led to improved dissemination channels of information in the organisation;
- various measures to improve the quality of the Court's reports, such as new graphical layout improving readability and external reviews;
- the adoption of a strategy to improve the organisation's relations with stakeholders, the press and public at large, which is subject to gradual implementation.

As part of its efforts to improve, during 2009 the Court will endeavour to address the observations and recommendations of the 'International peer review report on the European Court of Auditors' that was published in December 2008 and represents an important step in the Court's ongoing process of reform.

The peer review was undertaken by representatives of the state audit offices of Canada, Norway, Austria and Portugal. The peers undertook their work during 2008, including making contact with the Budgetary Control Committee of the European Parliament, and provided their final report at the end of the year. The objective of the peer review was to assess the design and operation of the Court's audit management framework. It involved an examination of:

- the planning and examination processes for both financial and performance audits;
- audit reporting; and
- the services that provide support to the Court in achieving its objectives.

The peer review team concluded 'that the audit framework established by the Court is suitably designed in accordance with the international auditing standards and good practices of supreme audit institutions.' The peers also observe that:

- 'the Court conducts its work with independence and objectivity';
- 'the audit reports examined during the review were based on sufficient and appropriate audit evidence as evidenced by international auditing standards'; and
- 'the stakeholders interviewed have a high level of confidence in the Court's reports and generally considered them to be fair, factual and objective'.

The Court appreciates the peers' constructive comments and recommendations which identify opportunities and challenges for it to further strengthen itself as a supreme audit institution. Among them is the need:

- to develop a culture that emphasises the Court as a single audit institution;
- to enhance quality assurance and quality control activities, to ensure that the interpretation and application of its audit policies and practices are consistent; and
- to further develop risk-based audit strategies to optimise the use of resources to meet the diverse needs of stakeholders.

As the peer report recognises, most of the recommendations have been anticipated in the framework of the action plan made prior to the review. The Court intends to integrate the others into its 2009–2012 Audit Strategy, after a dialogue with its staff and stakeholders, and will endeavour to implement them during the period.





## KEY PERFORMANCE INDICATORS

In 2008 the Court decided to set up a system of Key Performance Indicators (KPIs) for its audit and non-audit activities to measure performance on the achievement of the strategic objectives of the Court and the objectives set in the Annual Work Programme. KPIs aim to enhance internal and external accountability and to increase efficiency and quality of the work. KPIs will be introduced progressively in 2009 and 2010.

### WHY KEY PERFORMANCE INDICATORS?

- To inform management on how the Court, as an organisation, is doing relative to what it had set out to do.
- To support the decision-making process, focusing the attention of the organisation on efficiency issues and fostering improvement.
- To provide information to stakeholders on relevant Court performance issues.

KPIs focus on the achievement of the Court's strategic objectives by covering audit quality, output, impact and the sound management of the Court's resources. KPIs are intended to report on the Court's «corporate» performance and they will be an integral part of the Court's management system.

Quantity and quality of audit work can also be improved when looking at the impact that the Court's reports and opinions have on financial management. Four Key Performance Indicators (1 to 4) are targeted at measuring the impact of the Court's work. They will be developed for their inclusion in the Court's 2010 Annual Work Programme.

As a pilot exercise, the Court has measured performance of KPIs 5 and 6 for 2008.

#### *KPI 5 — Number of reports adopted compared to planned*

In 2008, the Court adopted 79 % of the planned number of reports. The Annual Report and most of the Specific Annual Reports were adopted according to plan. As for the special reports, 12 reports were adopted, compared with the planned number of 20 reports. The eight remaining reports were in the reporting phase at 31 December 2008.

#### *KPI 6 — Number of reports adopted on time*

In 2008, the Court adopted 73 % of its reports on time. The Annual Report and all Specific Annual Reports were adopted on time while further efforts are needed to improve the timeliness of the adoption of special reports.

KPI 7 measuring the amount of key preliminary findings issued on time will provide useful information on performance and will be developed in 2009. One KPI (8) will address issues concerning the Court's financial management. Two KPIs (9 and 10) will help to improve staff satisfaction and optimise the use of professional training as instrument to continuously keep staff updated on the latest audit methodology and techniques.

### THE COURT'S KEY PERFORMANCE INDICATORS

<b>KPI 1</b>	Appraisal by the principal users of the Court's reports of the quality and impact of the Court's audit
<b>KPI 2</b>	Appraisal by the auditee of the quality and impact of the Court's audits
<b>KPI 3</b>	Score granted by a panel of external experts on the content and presentation of the Court's reports
<b>KPI 4</b>	Percentage of audit recommendations: (a) accepted by the auditee (b) implemented by the auditee within x years
<b>KPI 5</b>	Number of reports adopted compared to planned adoptions
<b>KPI 6</b>	Number of reports adopted on time
<b>KPI 7</b>	Percentage of Statements of Preliminary Findings issued on time
<b>KPI 8</b>	External appraisal of the Court's financial management: (a) opinion of the external auditor (b) decision of the discharge authority
<b>KPI 9</b>	Degree of satisfaction of the Court's staff
<b>KPI 10</b>	Average professional training days per person

# INTERNATIONAL COOPERATION

## COOPERATION WITH EU NATIONAL AUDIT INSTITUTIONS

The EC Treaty stated that the ECA shall undertake its audit in 'liaison' with the Supreme Audit Institutions (SAIs) of the Member States, while the Treaty of Amsterdam later added that 'the Court of Auditors and the national audit bodies shall cooperate in a spirit of trust while maintaining their independence'. This was further developed by the Treaty of Nice, where declaration 18 of its final act explicitly invited the ECA to set up a Contact Committee with the SAIs of the Member States at which all Heads of the SAIs and the Court meet each year to discuss issues of shared interest. Day-to-day contacts are maintained through liaison officers appointed by each institution. Working groups have been set up to help develop common positions and practices.

In December 2008, the ECA hosted the annual Contact Committee meeting of the Heads of EU SAIs. The main focus of the meeting was the reform of the EU budget and the revised 2008–2011 Lisbon Strategy.

The Contact Committee aims to enhance cooperation among its members in order to improve external audit and accountability in the EU field. As European integration has developed over the years, so too has the role of the Contact Committee.

In addition to facilitating the exchange of information between the SAIs and the ECA, the structure has made it possible to achieve considerable progress with effective cooperation between the various institutions.

At its 2007 meeting in Helsinki, the Contact Committee realised the need to address emergent or new issues in a timely way, and agreed to include a permanent agenda item for such topical issues. Consequently, the 2008 Contact Committee meeting discussed the economic and financial crisis and agreed to organise a workshop on the role of the EU SAIs in the context of the crisis. This was followed by the setting up of a network to promote cooperation on audits related to the Lisbon Strategy and EU crisis management measures.

The Court participated in meetings of the network of the SAIs of the candidate and potential candidate countries (Turkey, Croatia, the former Yugoslav Republic of Macedonia, Albania, Bosnia and Herzegovina, and Montenegro). These meetings were held at the same time as the liaison officers' meetings in May and October. A Court delegation also participated at a workshop on the audit/evaluation of Public Internal Financial Control (PIFC) systems organised by the network, and held on 8 and 9 July in Ankara, Turkey.

Throughout 2008, the Court actively participated in the various working groups established by the Contact Committee. The working group on common auditing standards, which aims to develop common auditing standards and comparable audit criteria based on internationally recognised auditing standards tailored for the EU area, is chaired by the Court, and held four meetings in 2008. With effect from December 2008, the Court took over the (rotating) chair of the working group in the field of VAT, and the Agricultural Experts Network was re-launched under the chairmanship of a Member of the Court.

## OTHER INTERNATIONAL COOPERATION

The Court continued its active involvement in and contribution to the improvement of international auditing standards and practices through its participation in European and international organisations for public audit institutions, EUROSAI and INTOSAI respectively.

A Court delegation participated at the VII EUROSAI Congress held from 2 to 5 June in Krakow, Poland. Main discussion topics were establishing audit quality management systems within an SAI, auditing social programmes in the field of education and the professional integration of the disabled. The Court's President presented a paper on the role of leadership in establishing an audit quality management system.

The Court is represented on the EUROSAI environment working group and on the IT working group, and participates in the EUROSAI Training Committee. The Court also participates in the working group preparing a good practice guide to achieving quality within an SAI, which was set up by the VII EUROSAI Congress. The Court participates also in the EUROSAI Task Force on the Audit of Funds Allocated to Disasters and Catastrophes.

The EUROSAI Congress appointed the European Court of Auditors together with the National Audit Office of the Republic of Slovakia as auditors for the period 2009–2011.

Since becoming a full member of INTOSAI in 2004, the Court has actively participated in the Financial Audit Subcommittee, the Compliance Audit Subcommittee, and the Performance Audit Subcommittee. The Court played an active role by providing input to the subcommittee on promoting best practices and quality assurance through voluntary peer reviews.

Since 2008 the Court has been chairing the working group on accountability for and audit of disaster-related aid (which succeeded the INTOSAI Tsunami Task Force). A first meeting of this working group was organised and hosted by the Court from 30 June to 2 July 2008. During this meeting a draft work programme for the 2008–2010 period was discussed and adopted. The main objective is to develop guidance for accountability and audit in this area, addressing all parties involved through their respective standard setting bodies. Apart from its coordinating role, the Court has taken up responsibility for a number of tasks, two of them in cooperation with the Norwegian Audit Office. Chairmanship of this working group also implies that the Court is represented in Governing Board meetings of INTOSAI.



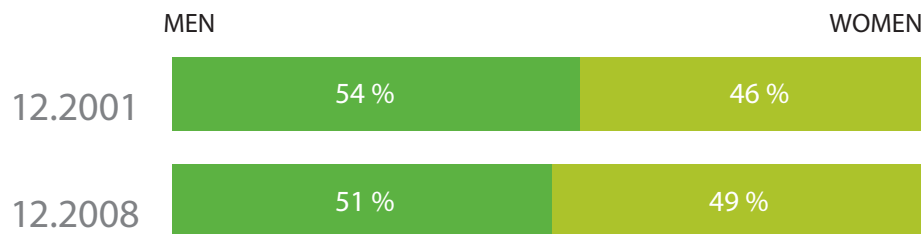
# HUMAN RESOURCES

The Court's main asset is its staff. On 31 December 2008, the Court had a staff of 857 in active service (officials and temporary and contract staff, but excluding Members, seconded national experts and trainees). The staff comprises 501 auditors and assistant audit staff, 163 translators, 173 for administrative support and 20 for the Presidency. They 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.

For Human Resources the Court has set a Key Performance Indicator (KPI 9) to assess the degree of satisfaction of the Court's staff. A Staff Satisfaction Survey has been launched to provide information on this topic and to support the decision-making process in this area.

## PROPORTION OF MEN AND WOMEN

The staff was made up of men and women in almost equal proportions.

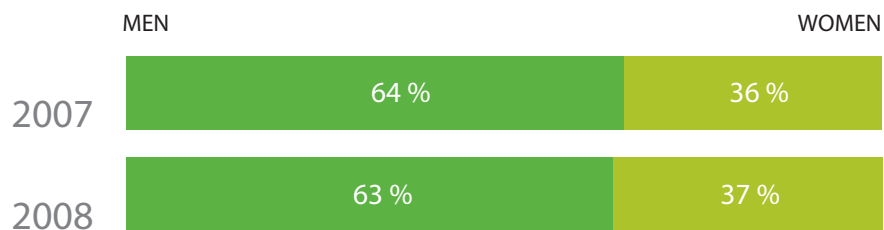


The chart below shows the proportion of men and women by level of responsibility at 31 December 2008. Like the other European institutions, the Court applies a policy of equal opportunities in its human resources management and recruitment and recognises the need to be more active in promoting more women to higher management levels at the Court. 14 of the 59 Directors and Heads of Division/Unit (24 %) are women, which is a slight increase since 2007. Most of them are, however, employed in the Translation Directorate and in the administrative departments.

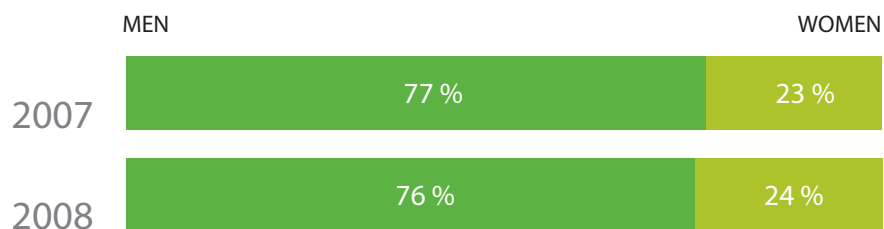
#### Assistants — secretaries (AST level)



#### Auditors — administrators (AD level)



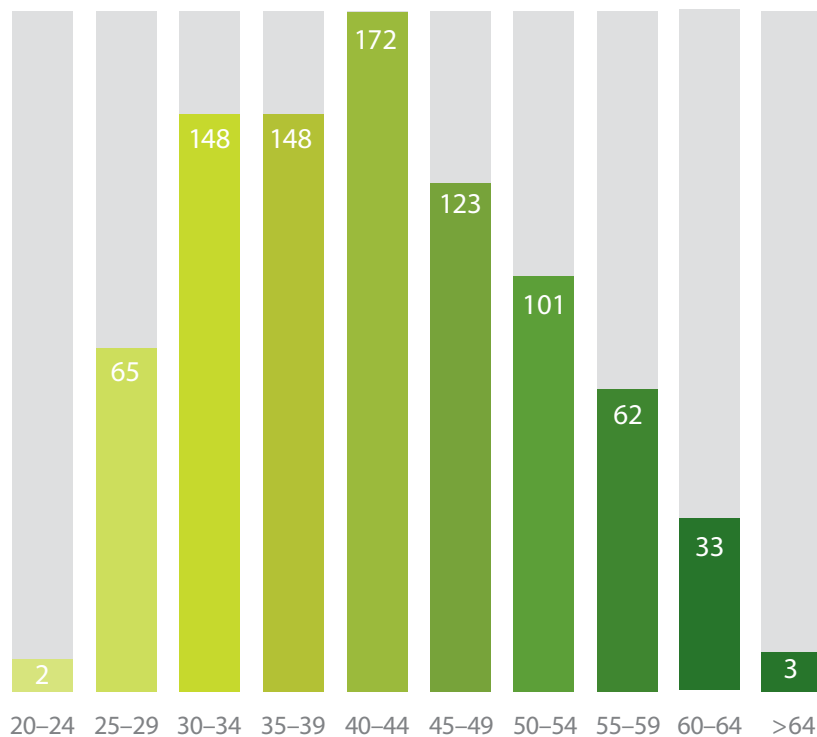
#### Directors and Heads of Unit



## AGE PROFILE

The graph below shows that the Court is a 'young' institution (62 % of staff members are below 44 years of age). The 98 Court employees who are 55 or over include 27 out of 59 Directors and Heads of Division/Unit, which means extensive renewal of senior management in the next 5 to 10 years.

### Age profile



## RECRUITMENT

The Court'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 Court are organised by the European Personnel Selection Office (EPSO). The Court also provides traineeships to a limited number of university graduates for periods of three to five months.



In 2008, the Court recruited 97 employees: 48 officials, 18 temporary staff and 31 contract staff. Recruitment depends on the availability and sufficiency of reserve lists from EPSO competitions. A shortage of suitable laureates meant that the Court was not able to recruit as many new staff as planned in a number of departments, so that the overall number of vacant posts (69) was higher at the end of 2008 than at the end of 2007. It should, however, be noted that at the end of the year a substantial number of recruitments were in process, with staff due to join the institution during the first quarter of 2009. The Court is presently trying to shorten delays in its recruitment process.

## TRANSLATION

Translation is an important administrative task that enables the Court to meet its communication targets and abide to the legal obligation of publishing in 22 languages. Translated work, mainly due to more special reports being adopted, saw a 17 % increase in 2008. The vast majority of translations is done internally and in case of activity peaks beyond the normal capacity of translation units, translation work is outsourced to the Translation Centre (CTOU) or to freelance agencies.

Furthermore, translators participate in audit missions and provide assistance to auditors before, during and after missions, including during the successive phases of the drafting of audit reports. A permanent support by translators is organised to keep the content of the intranet and the Internet up to date in both English and French. Support is also provided to INTOSAI working groups and for other specific needs related to the Court's activities.

The Court's Translation Directorate participates actively in the works of the Interinstitutional Committee on Translation and Interpreting (ICTI), is a member of international committees and participates in international conferences related to the development of translation and terminology tools.

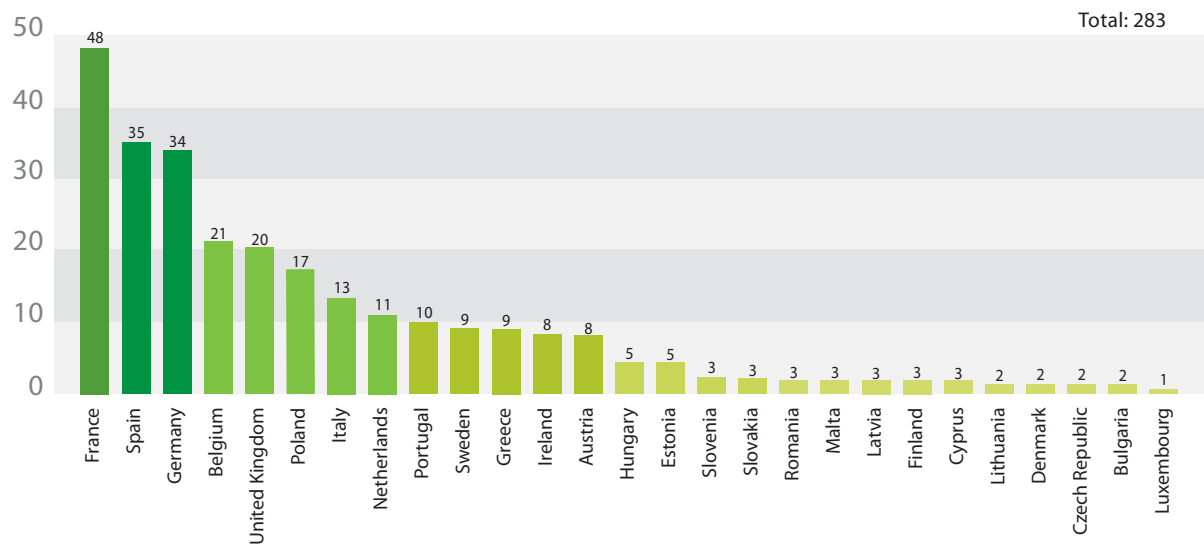
## AUDIT VISITS

The Court's audit work requires auditors to make visits (known as 'missions') to Member States and other recipients countries of EU funds to obtain appropriate audit evidence. These visits are normally to central and local administrations involved in the processing, management and payment of EU funds and to the final beneficiaries who receive them. Audit teams generally comprise two or three auditors and the length of an audit mission is usually up to two weeks, depending on the type of audit and travelling distance. Within the EU, the audit visits are often made in liaison with the Supreme Audit Institutions of the Member States visited, who provide useful logistical and practical support.

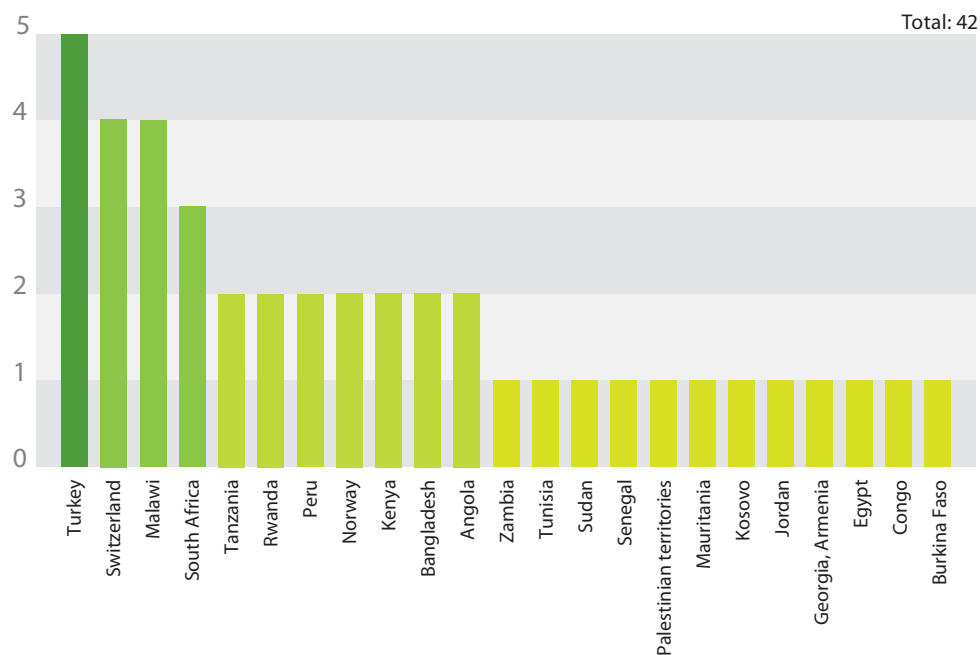
In 2008 the audit missions involved costs of 3,29 million euro. This is an essential investment in order to provide sufficient audit coverage at all levels and locations of the management of EU funds.

The following graphs provide a summary of the number of audit missions undertaken by the Court within EU Member States and outside the Union in 2008.

#### 2008 MISSIONS — MEMBER STATES



#### 2008 MISSIONS — NON-MEMBER COUNTRIES



## PROFESSIONAL TRAINING

The audit profession requires continuous training. Furthermore, the specificities of the Court's audit environment create a need for auditors with good linguistic skills.

In 2008, the Court's staff each received an average of 10 days of professional training. Technical training activities grew significantly in comparison with 2007. In 2008, the Court increased its support to the participation of its staff in continuing programmes of acquisition or maintenance of professional qualifications and diplomas in the areas of external audit, internal audit and computer audit. Language courses represented 48 % of the total number of days devoted to training in 2008, compared to 52 % in 2007. Without taking into account the language courses, auditors devoted 7 days to professional training in 2008.

Based on the long-term strategic objective 'Learning and Growth' and the directional plan for training for 2008–2011 as well as on the 2008 adopted training paths, the Training Unit has improved the content of training and developed new courses following the priorities decided by the Court. In addition, the cooperation with the other institutions and interinstitutional bodies such as the European Administrative School has been successfully continued.

Box 6 presents the staff of one selected unit or division within the Court, providing an insight into the work carried out, the people concerned, their background and professional experience.

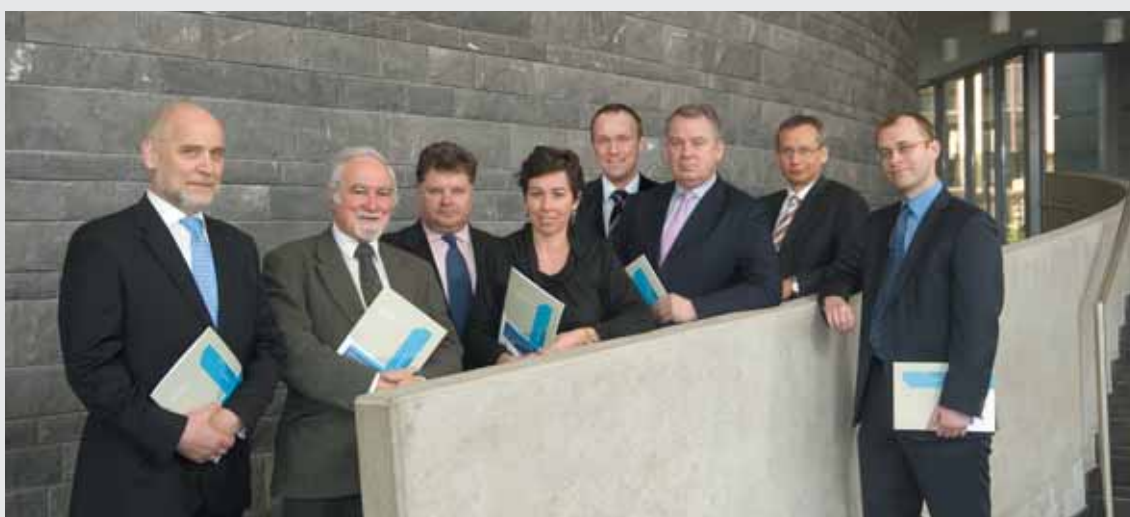
## BOX 6 — INTELLIGENT ENERGY TEAM

The Court's 2008 report on Intelligent Energy — Europe 2003–2006 (Special Report No 7/2008) provided an insight into the operation of a grant scheme aimed at improving the uptake of energy efficient technologies. It covered the procedures put in place to allocate funds to individual projects, arrangements for monitoring and evaluation, the cost of administration, and the impact of the creation of an Executive Agency.

The team behind the audit worked in close cooperation with the reporting Member, David Bostock. The head of division responsible for supervising the audit was Hendrik Fehr and team leader was Peggy Vercauteren. The auditors involved were Oliver Müller, Peter Zsapka, Zoltán Giday and Carl-Christian Buhr, with Gerhard Ross, Thomas af Hällström and Peter Welch from David Bostock's Cabinet also playing a significant role.

The audit incorporated the use of a survey to obtain information from a wide group of participants. Various costing techniques were used to complete and complement the information available from the Commission.

The audit found that the programme had been administered in accordance with the approach and standards usually applied by the Commission. However, the report noted that the spending pattern lacked focus, and that monitoring and evaluation did not make it possible to form a view of the overall quality of the programme. The audit revealed that the administrative costs over the programme period (for Commission, Agency and participants) were relatively high — equivalent to the amount disbursed to participants in the same period. The introduction of the Executive Agency had increased participant satisfaction with the programme.



From left to right, **Hendrik FEHR**, Director (25 years at the Court), **David BOSTOCK**, Member of the Court (7 years at the Court), **Zoltán GIDAY**, Auditor (3 years at the Court), **Peggy VERCAUTEREN**, Auditor (5 years at the Court), **Oliver MÜLLER**, Auditor (6 years at the Court), **Peter WELCH**, Head of Private Office (13 years at the Court), **Gerhard ROSS**, Head of Unit (11 years at the Court), **Thomas af HÄLLSTRÖM**, Auditor (8 years at the Court)

# FINANCIAL INFORMATION

## BUDGET

The Court's 2009 budget represents approximately 0,16 % of the total EU budget, or around 2,4 % of the EU administrative and institutional budget. It has increased by 41 % compared to 2008, mainly due to the Court's building appropriations, which address the need to accommodate future increase in staff in the Court's second extension, called 'K3', which will be completed by 2013. Discussions on the financing modalities were launched in February 2008 with the budgetary authority. As a result, the building project, estimated to a total of 79 million euro, will be financed by appropriations in four successive annual budgets. The budgetary authority granted in October 2008 an appropriation of 55 million euro in the 2009 budget. The table below shows how the appropriations are distributed between different budget lines. Staff appropriations amount to approximately 52 % of the total in 2009.

BUDGET	2007	2008	2009
	(in 1 000 euro)		
Members of the institution	11 270	12 061	11 718
Official and temporary staff	82 583	88 712	92 086
Other staff and external services	4 014	4 248	4 497
Missions	3 000	3 212	3 290
Other expenditure relating to persons working for the institution	2 056	2 286	2 684
<b>Subtotal Title 1</b>	<b>102 923</b>	<b>110 519</b>	<b>114 275</b>
Immovable property	8 126	12 110	62 891
IT & T	5 518	5 879	6 269
Movable property and associated costs	1 396	1 147	981
Current administrative expenditure	435	425	439
Meetings, conferences	872	876	868
Information and publishing	1 810	1 813	1 921
<b>Subtotal Title 2</b>	<b>18 157</b>	<b>22 250</b>	<b>73 369</b>
<b>Total Court of Auditors</b>	<b>121 080</b>	<b>132 769</b>	<b>187 644</b>

## INTERNAL AUDIT SERVICE

The purpose of the Court's Internal Audit Service is to assist the Court in achieving its objectives by a systematic and methodological evaluation of risk management, internal control and management procedures. The Internal Audit Service also makes proposals designed to improve the efficiency of the Court. This requires a constant evaluation of the internal control systems within the Court in order to assess their effectiveness. More generally, the performance of individual services in implementing policies, programmes and actions — with a view to bringing about continuous improvement — has to be assessed.

In 2008 the work of the Court's Internal Audit Service focused on financial audit (verification of the accounts), the review of *ex-ante* verification, the recruitment process, benefits and allowances upon recruitment, building maintenance, utilities and services charges, the implementation of the IT strategy and a review of the IT control framework. Most audit recommendations made in 2008 by the Internal Auditor were accepted by the auditees and integrated into corrective action plans.

The Court's Audit Committee monitors the activity of the Internal Auditor and ensures his/her independence. It also discusses and takes note of the Internal Auditor's work programme and reports and requests (if necessary) the Internal Auditor to carry out special audits. The Audit Committee held six meetings in 2008 and paid special attention to the follow-up of the recommendations of the Internal Auditor. It also dealt with the Internal Auditor's annual report for 2007, the Audit Committee's own annual report for 2007 and the Court's report to the Discharge Authority on the Internal Audit Function with respect to 2007.

The Audit Committee had two meetings with the Court's External Auditor to discuss the progress of the audit carried out on the financial year 2007.

## EXTERNAL AUDIT OF THE COURT

In its audit opinion for the year 2007 (OJ C 318, 12.12.2008), the independent external auditor of the Court formulated the following conclusions:

Regarding the financial statements:

'In our opinion, these financial statements give a true and fair view of the financial position of the European Court of Auditors as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with Council Regulation (EU, Euratom) No 1605/2002 of 25 June 2002, Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of the said Council Regulation and the European Court of Auditors' Accounting Rules.'

Regarding the use of resources and the control procedures:

'Nothing has come to our attention that causes us to believe that in all material respects and based on [identified] criteria [...], (a) the resources assigned to the Court have not been used for their intended purposes, (b) the control procedures in place do not provide the necessary guarantees to ensure the compliance of financial operations with the applicable rules and regulations.'







European Court of Auditors

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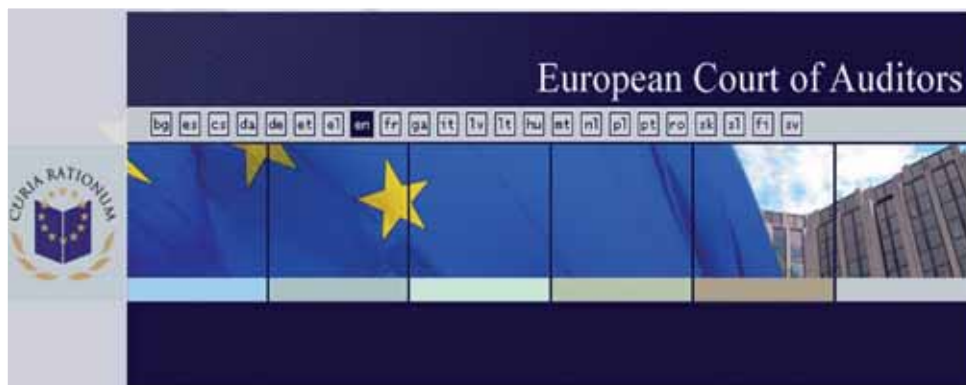
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