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EUROPEAN COURT OF AUDITORS



ANNUAL ACTIVITY
REPORT

2011

EN

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European Court
of Auditors

ANNUAL ACTIVITY REPORT
2011

EUROPEAN COURT OF AUDITORS

MISSION

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

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PRESIDENT'S FOREWORD



I would like to welcome you to the ECA's 2011 Annual Activity Report.

In 2011 there were important **developments in EU governance** as a response to the economic and financial crisis. These have significant consequences for the use of public funds in the future. Against this background, in May we published a position paper highlighting the implications for accountability, transparency and public audit of the measures taken in response to the financial and economic crisis. Later in the year, the Contact Committee of the Heads of the Supreme Audit Institutions (SAIs) of the Member States and the ECA, called on EU decision-makers to ensure proper respect for the principles of accountability, transparency and public audit where public funds are at stake. In particular, the SAIs of the euro area called for the provision of adequate external public audit of the European Stability Mechanism. This led to a decision to establish a board of audit for the Mechanism, which will include a member proposed by the ECA.

In 2011 we continue to be encouraged by the results of our **key performance indicators**, particularly relative to the follow up of recommendations accepted by our auditees as well as to the rating of our audit work by stakeholders and by external experts. We succeeded in increasing our output in terms of the number of audit reports and opinions adopted in 2011, although we did not quite meet the ambitious targets we have set for the timeliness of reporting. We produced our annual reports with enhanced information and a new chapter on performance issues, 42 specific annual reports and 16 special reports, alongside seven opinions and a position paper.

The scope of our institution's **audit powers** over the Union's revenue and expenditure, in particular in respect of VAT own resources in Member States, were confirmed by the European Court of Justice in November 2011.

Starting from 2012 we will be able to report on the extent to which our **recommendations** are implemented in practice. We will also start a peer review of our performance audit procedures with a view to improving further the management of the delivery of our special reports. In 2011 we have published ethical guidelines for further strengthening the audit management framework and revised our Audit Policies and Standards to streamline the audit and reporting processes. A new staff satisfaction survey will also be launched in 2012.

Looking further to the future, in 2012 we will complete the preparation of our **strategy for the period 2013 to 2017**. A number of key challenges are already clear. EU governance will keep evolving and we must continue to promote due respect for the principles of accountability, transparency and public audit. The need for high quality and timely assurance about the use of EU funds is increasing and we must develop our audits and reports accordingly. As the EU continues to develop, we will also look to make best use of our audit experience to help policy makers improve EU financial management. Enhancing the financial accountability of the EU is a goal we share with other actors and we will seek to leverage our efforts by developing strategic partnerships. Finally, like other EU public bodies, we will need to be prepared to do more with less and improve the efficiency of our organisation.

Meeting these challenges will depend crucially on the efforts of all who work at the ECA. We are — and will continue to be — committed to **developing the excellence of our staff**. It is a core value of our organisation. Given the professionalism, commitment and results achieved by our staff in the past, I am confident that the ECA will be able to achieve its objectives for the future.



Vítor Manuel da SILVA CALDEIRA
President

2011 AT A GLANCE

OUR ACTIVITIES

- **Annual reports** on the EU budget and on the EDF for the 2010 financial year providing enhanced information
- 42 **specific annual reports** published on the EU's agencies, decentralised bodies and other institutions for the 2010 financial year
- 16 **special reports** adopted on specific budgetary areas or management topics
- 7 **opinions** providing contributions on budget reform, such as the modernisation of public procurement policy and the Commission's legislative proposal for the rules governing Cohesion spending after 2013
- **Position paper** on the consequences for public accountability and public audit in the EU and the role of the ECA in the light of the current financial and economic crisis

OUR MANAGEMENT

- Continue to be encouraged by the results of our **key performance indicators**, particularly on the quality and impact of our work
- Adoption of **ethical guidelines** further strengthening the audit management framework
- Revision of the ECA's **Audit Policies and Standards** to streamline the audit and reporting processes
- Deployment of **staff** from administration to core audit tasks, helping increase audit staff by more than 12 % in comparison to 2008
- Major construction work on the ECA's second extension **building project** nearly complete and fitting out ongoing

OUR ACTIVITIES

AUDIT REPORTS AND OPINIONS

The European Court of Auditors has three main outputs:

- annual reports**, comprising mainly the results of financial and compliance audit work on the European Union budget and European Development Funds (EDFs). Separately published specific annual reports 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
- opinions** on draft legislation with an impact on financial management, and **position papers** on other issues at the ECA's own initiative.

| Number of reports and opinions | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|------|------|------|------|------|
| Annual reports on EU budget and EDFs | 2 | 2 | 2 | 2 | 2 |
| Specific annual reports on EU agencies and decentralised bodies | 29 | 29 | 37 | 40 | 42 |
| Special reports | 9 | 12 | 18 | 14 | 16 |
| Opinions and other output | 9 | 5 | 1 | 6 | 8 |

The full text of all audit reports and opinions is available on the ECA's website at www.eca.europa.eu in 22 EU languages.

ANNUAL REPORTS ON THE 2010 FINANCIAL YEAR

ANNUAL REPORT ON THE IMPLEMENTATION OF THE 2010 EU BUDGET

During 2011 the ECA carried out the bulk of its financial and compliance audit work on the implementation of the 2010 EU budget. This resulted in the publication of the **2010 annual report**, including the seventeenth statement of assurance (DAS), on 10 November 2011. A number of changes were introduced in the 2010 annual report to improve clarity and the information provided. These included revised policy groups (and related annual report chapters) into which the ECA groups expenditure, publication of estimated error rates per policy area (see below), an enhanced focus on recommendations for improving financial management and a new chapter on performance issues.

For the first time the ECA published **estimated error rates** for both the EU budget as a whole and for each policy group. These error rates are calculated by extrapolating the quantifiable errors found in the samples of transactions audited. The ECA compares the estimated error rate with a materiality limit of 2 %, in order to determine — together with other evidence — whether material error is present. Error rates are not a measure of fraud but reflect the ECA's estimation of the degree of non-compliance with the rules governing the spending. These include breaches of public procurement rules, ineligible or incorrect calculation of costs claimed by EU co-financed projects, or over-declaration of land by farmers.

The key messages of the 2010 annual report

- The 2010 **accounts** presented fairly the financial position of the European Union and the results of its operations and its cash flows for the year. In contrast, the **payments** underlying these accounts were affected by material error, with an estimated error rate of 3.7 % for the EU budget as a whole. Overall, the **control systems** were partially effective in ensuring the regularity of payments.
- The ECA's estimated error rate for spending in the **Cohesion, energy and transport** policy group — the most error prone EU spending area — was higher than for 2009, with an estimated error rate of 7.7 %.
- For the **other areas of EU spending** the estimated error rate remained relatively stable. For the **Agriculture and natural resources** policy group the estimated error rate was 2.3 %, i.e. over the materiality level. However, direct payments to farmers were free from material error.
- The proportion of advance payments — **pre-financing** — in the EU budget has risen considerably. The accounting rules and supervision have not been adjusted adequately.
- When **planning EU spending programmes**, the Commission and the Member States should pay greater attention to defining objectives that are SMART — specific, measurable, achievable, relevant and timed — as well as to identifying and mitigating the risks to implementation.

ANNUAL REPORT ON THE EUROPEAN DEVELOPMENT FUNDS FOR 2010

In its **annual report on the European Development Funds** (EDFs) for the 2010 financial year (published 10 November 2011) the ECA concluded that the 2010 accounts presented fairly, in all material respects, the financial position of the EDFs, and that their operations and cash flows were in accord with their financial regulations. The revenue of the EDFs was free from material error. The EDF commitments were also legal and regular in spite of non-quantifiable errors found in procurement. However, a material level of error was found in the EDF payments to projects, with an estimated error rate of 3.4 %. The errors found related to non-respect of eligibility conditions. The ECA assessed the control systems governing the EDF spending as partially effective in ensuring the regularity of payments.

SPECIFIC ANNUAL REPORTS ON THE EU AGENCIES, DECENTRALISED BODIES AND OTHER INSTITUTIONS FOR 2010

The ECA published in December 2011 **specific annual reports** on the 2010 financial year for each of the EU's 42 agencies, decentralised bodies (such as joint undertakings) and other institutions (notably the operational efficiency of the European Central Bank). The ECA provided unqualified opinions for all of the audited entities, except for the European Global Navigation Satellite System Agency, due to incorrect accounting for assets, and for the ENIAC Joint Undertaking due to no budgetary outturn account having been included in the accounts.

The EU's agencies and decentralised bodies have been created by the EU legislator to undertake specific tasks. Each agency has its own mandate, board, director, staff and budget. Agencies are active in many areas, such as safety, security, health, research, finance, migration and travel.



President Caldeira presenting the 2010 annual report at the European Parliament plenary session

SPECIAL REPORTS IN 2011

In addition to its 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, so making best use of its resources.

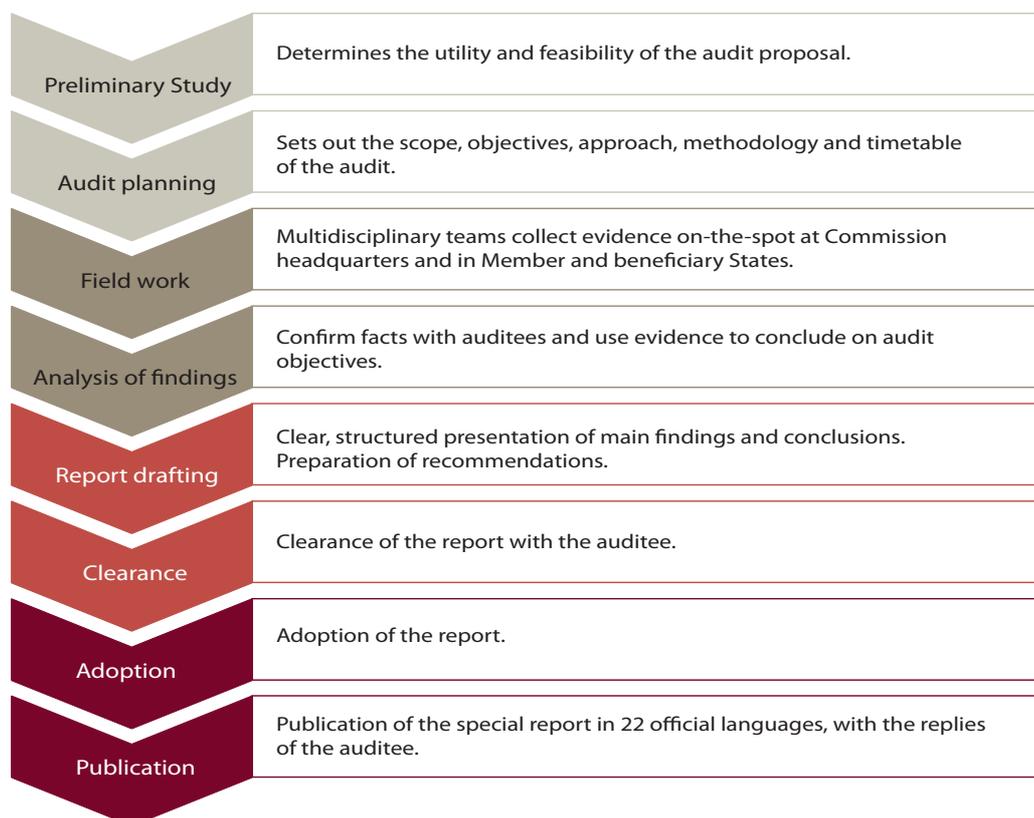
When selecting topics, the ECA considers:

- 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**.

In 2011 the ECA adopted **16 special reports** on a range of topics, representing an increase on the 14 adopted in 2010. They are presented briefly below under the related heading of the financial framework — the multi-annual budget of the EU.

The special reports are published in full on the ECA's website www.eca.europa.eu and through the EU bookshop in 22 EU languages.

THE MAIN STEPS IN A SELECTED PERFORMANCE OR COMPLIANCE AUDIT



SUSTAINABLE GROWTH

Sustainable growth is aimed at growth and jobs and covers two themes:

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 amounts to € 89.4 billion, or 9.2 % of the total, with close to two thirds devoted to research and development; and

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

During 2011, the ECA adopted the following special reports in this area:

- effectiveness of the **Small and Medium Enterprise** Guarantee facility (4/2011), in terms of its design and planning, the management of its operations and the achievement of its objectives. The SME Guarantee facility is a financial instrument managed by the European Investment Fund on behalf of the European Commission and provides guarantees or counter guarantees to financial intermediaries for loans granted by financial institutions to SMEs aimed at increasing the supply of debt financing;
- effectiveness of the **European Regional Development Fund (ERDF) co-financed tourism projects** (6/2011), in terms of expected results, their sustainability, EU added value and project design. It was based on a wide survey of projects in nine Member States in 26 regions. Between 2000 and 2006, € 4.6 billion of EU funds was allocated under the ERDF for physical investments in tourism through projects selected and managed by managing authorities in the Member States;



- effectiveness of **e-government projects supported by the European Regional Development Fund (ERDF) (9/2011)** focused on the 2000–06 programme period and four Member States: France, Italy, Poland and Spain. The audit assessed whether the co-financed projects were selected according to the needs, carried out as expected, and useful and sustainable. The aims of the € 6.7 billion EU support earmarked for the Information Society by the ERDF were the development of new secure technologies, infrastructure capabilities and connectivity between regions through broadband;
- effectiveness of the **Commission's management of state aid control (15/2011)**. The audit examined whether the procedures and systems ensure that the Commission handles all relevant state aid cases, that the cases are handled effectively within the deadlines and allow the Commission to monitor the impact of its state aid control. The Commission is responsible for ensuring that state aid granted by Member States is compatible with the internal market of the European Union. Member States are required to first notify the Commission of aid measures and to obtain its permission before giving state aid;
- implementation of the **EU financial assistance for decommissioning of nuclear plants in Bulgaria, Lithuania and Slovakia (16/2011)** assessed whether the programme actions were designed in accordance with identified needs, whether they were carried out as planned and whether the accountability and governance arrangements were adequate for ensuring an effective use of EU funds. Bulgaria, Lithuania and Slovakia committed themselves within their EU accession negotiations to the early closure and subsequent decommissioning of eight non-upgradeable nuclear reactors. Due to the exceptional burden, the EU provided financial assistance of € 2.9 billion to the three country programmes between 1999 and 2013.



PRESERVATION AND MANAGEMENT OF NATURAL RESOURCES

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

Three quarters of the spending involves direct payments to farmers and support to 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** (RD), 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 2011, the ECA adopted the following special reports in this area:

- the **Single Payment Scheme of the common agricultural policy** (special report 5/2011) — See box: ‘A performance audit in focus’;
- whether **agri-environment support policy is well designed and managed** (7/2011). The audit assessed whether the policy is designed and monitored to deliver tangible environmental benefits, farmers are well supported through appropriate guidance and correct aid amounts, and management takes account of specific environmental needs. Agri-environment support involves € 2.5 billion of EU spending per year and aims to respond to society’s increasing demand for environmental services by encouraging farmers to introduce or continue to apply agricultural production methods compatible with the protection and improvement of the environment. Management of this policy is shared by the Commission and the Member States;
- the **recovery of undue payments made under the common agricultural policy** (8/2011), which assessed the effectiveness of the systems established and operated by Member States to recover identified debts. The audit examined whether Member States process and record debts correctly, whether they are successful in recovering identified undue payments, whether they write off irrecoverable debts according to the rules and whether the Commission’s supervision and monitoring is effective. The European Union spends around € 55 billion per year on agriculture and rural development, some of which is wrongly paid due to irregular or incorrect claims and needs to be recovered;

- effectiveness of the **school milk and school fruit schemes** (10/2011), which assessed whether the EU subsidies have a direct impact on the beneficiaries' consumption and if the schemes are likely to meet their educational objectives and influence future eating habits. These EU schemes aim to encourage children to eat healthily by consuming dairy products and fruit and vegetables, and to contribute to improving the market for these products. The EU currently earmarks an annual budget of € 180 million for these two schemes;
- whether the **design and management of the Geographical Indications Scheme allow it to be effective** (11/2011). The audit assessed the robustness of the system, the attractiveness of the scheme for producers and the awareness of it by consumers. The Geographical Indication Scheme aims to protect the names of products whose characteristics are associated with the geographical area in which they are produced. It provides potential economic opportunity for farmers and food producers and aims for a positive impact on the rural community; and
- effectiveness of **EU measures contributing to adapting the capacity of EU fishing fleets to available fishing opportunities** (special report 12/2011). The audit examined whether the framework of the reduction of fleet capacity was clear and if the specific measures were well-defined and implemented. The audit was carried out at the Commission and in Denmark, Spain, France, Italy, Poland, Portugal and the UK. The EU common fisheries policy aims to promote sustainable fishing by achieving a balance between fish resources and the fishing fleet in order to avoid over-exploitation of fish stocks. For many years there has been a problem of over-capacity, undermining the sustainability of stocks and the long-term viability of the fishing sector. The European Fisheries Fund provides € 4.3 billion for the 2007–13 programming period.



A PERFORMANCE AUDIT IN FOCUS

SPECIAL REPORT 5/2011 SINGLE PAYMENT SCHEME (SPS): ISSUES TO BE ADDRESSED TO IMPROVE ITS SOUND FINANCIAL MANAGEMENT



This performance audit covered the **soundness of financial management** of payments under SPS, which is currently applied in 17 of the 27 EU Member States. Expenditure on the scheme amounted to some € 28.8 billion in 2009.

The introduction of the SPS was a key feature of the **2003 reform** of the EU common agricultural policy. Its objective was to provide income support to farmers and to encourage them to respond better to market demand. The reform removed the link between support and production ('decoupling'). Instead farmers need eligible agricultural land at their disposal and to hold 'payment entitlements'.

From 2006 the ECA undertook a **number of audits** of Commission and Member State procedures for ensuring the accuracy of payment entitlements and the correctness of payments to farmers. These audits covered all the 17 Member States applying the schemes, and the results were reported in the 2006 and 2007 annual reports on the EU budget.

The ECA decided to build on these results through a **performance audit**, which focused on:

- the beneficiaries of the policy, the access to the support, the definition of eligible land;
- the contribution of the scheme to the objectives of supporting farmers' income and of maintaining land in good agricultural and environmental condition; and
- the specific effects arising from the various implementing models of the scheme.

Audit visits were carried out at the Commission and in France, the United Kingdom and Italy in 2009 and 2010.

The resulting **special report 5/2011** concludes that SPS has contributed to the achievement of two main objectives of the common agricultural policy: encouraging farmers to better respond to market demand and supporting the income of the agricultural sector as a whole. However, overall, the implementation of the scheme resulted in a number of questionable features relating to the definition of the beneficiaries of the policy, the nature of eligible parcels and activities, the environmental impact of the scheme, the distribution of aid across, and within, Member States and the specific effects of the historic and regional models.

The report **recommends** that payments be better directed to active farmers while excluding non-agricultural parcels and activities that do not contribute to increasing agricultural productivity or to actively maintaining the environmental value of the land. The ECA also recommends that the costs of environmental and other externalities that farmers generate should be reflected in the level of the support and the distribution of the aid between farmers be more balanced. The calculation of the support should be based on current farming conditions.

The audit was carried out by a **multidisciplinary team** of eight auditors from Chamber I. The audit work provided not only further insight into the concept of decoupled farm support, but also the effects associated with the change from the former coupled support. According to Mr Sven Kölling, the team leader: *'it was particularly challenging to audit the multitude of SPS implementing models and variants together with the national and regional management policies, which influenced the effectiveness and efficiency of the aid'*. Visits to final beneficiaries and on-the-spot inspection of farms proved to be indispensable for the collection of the evidence supporting the audit findings and conclusions.

A number of the ECA's recommendations are reflected in the Commission's proposals for the reform of the common agricultural policy after 2013 (under discussion at time of writing) including the definition of 'active farmer' and minimum activities on certain types of land, the distribution of aid between beneficiaries, a reduction of the variety of SPS models, and a better reflection of environmental externalities in the support.



Audit team (from left to right): (front row) Heike Walz, ECA Member Michel Cretin, Aurelia Petliza, (back row) Pietro Puricella, Dirk Pauwels, Sven Kölling, Sylvain Lehnhard

EU AS A GLOBAL PLAYER

EU activities in the field of external relations focus on: **enlargement**; providing **stability, security and prosperity in its neighbourhood**; working actively to support **sustainable development** at the international level; and promoting **global political governance** and ensuring strategic and civilian security.

The EU has earmarked € 55.9 billion for 2007–13, representing 5.7 % of its total planned expenditure on these objectives. 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 2011, the ECA adopted the following special reports in this area:

- **has devolution of the Commission’s management of external assistance from its headquarters to its delegations led to improved aid delivery?** (1/2011). The audit examined the management arrangements and their impact on improving the speed and quality of aid delivery and establishing sound financial procedures. The EU is the world’s largest aid donor, with the Commission managing a significant proportion of the aid — € 8.4 billion in 2009 — through its management system, with responsibilities delegated to its local offices in partner countries since 2002;
- **efficiency and effectiveness of EU contributions channelled through United Nations Organisations in conflict affected countries** (3/2011) by focusing on projects in Afghanistan, Iraq and Sudan from 2006 to 2008. The amounts channelled by EuropeAid through UN organisations were in the region of € 4 billion for the period from 2005 to 2009. The EU may contribute funds to projects as a sole donor or together with other donors, to multi-donor trust funds without allocating the money to specific activities or objectives, or to the general budget of a UN organisation;
- **effectiveness of EU assistance to improve Croatia’s capacity to manage post-accession EU funding** (14/2011) assessed the Commission’s planning of the assistance and whether the EU financed projects achieved the intended results. The purpose of EU pre-accession assistance is to help candidate countries strengthen their administrative capacity in preparation for managing the larger amounts of EU funding available to them once they become Member States. Croatia has received € 150 million in assistance every year since 2007.

ADMINISTRATION

The **administrative expenditure of the EU's institutions**, agencies and decentralised bodies covers staff costs, such as salaries and pensions, and spending on buildings, equipment, energy, communications and information technology. The total spending for 2007–13 amounts to € 55.9 billion, 5.7 % of the total EU budget.

During 2011, the ECA adopted the following report in this area:

- management of the European Anti-Fraud Office (OLAF)** (2/2011) assessed the actions taken to implement the recommendations of a previous ECA special report (1/2005) on the subject. The audit examined whether the activities of OLAF have been refocused on its investigative function, whether it improved the efficiency of its investigations, how it demonstrated the effectiveness of its investigations and whether the role of the Supervisory Committee has been clarified. OLAF is in charge of fighting fraud and other illegal activities detrimental to the EU budget. It is part of the Commission but has investigative autonomy and employs around 500 staff and has an annual budget of some € 50 million.

REVENUE

The budget of the European Union is mainly financed by **own resources and other revenue**. Traditional own resources — mainly custom duties — account for approximately 12 % of total EU revenue and the VAT resource accounts for a further 12 %. The majority of EU own resources representing around 70 % are provided by the Gross National Income resource, which ensures that the budget is always in equilibrium.

During 2011, the ECA adopted the following report in this area:

- whether the control of Customs Procedure 42 prevents and detects Value Added Tax (VAT) evasion** (13/2011) assessed if there is a sound regulatory framework in the fight against VAT evasion under customs procedure 42. The ECA audited in Belgium, Denmark, Spain, France, Austria, Slovenia and Sweden. Customs procedure 42 is a mechanism an EU importer uses to obtain a VAT exemption. It is applied when goods imported from outside the EU into a Member State are transported to another. In such cases, the VAT is due in the destination Member State.

OPINIONS AND POSITION PAPERS ISSUED IN 2011

The ECA contributed to improving **EU financial management** through its opinions on proposals on new or revised legislation with financial impact. These opinions are requested by the other EU institutions, and used by the legislative authorities — European Parliament and Council — in their work. The ECA can also issue position papers on other issues at its own initiative.

In 2011 the ECA adopted seven opinions:

- **1/2011:** Proposal for a regulation of the Council amending Regulation (EC) No 215/2008 on the Financial Regulation applicable to the 10th European Development Fund, as regards the European External Action Service.
- **2/2011:** Clean Sky Joint Undertaking's Financial Rules
- **3/2011:** Proposal for an amendment to the Financial Regulation of the European Schools
- **4/2011:** The Commission's Green Paper on the modernisation of public procurement policy
- **5/2011:** Proposal for a Council regulation (Euratom) laying down the rules for the participation of undertakings, research centres and universities in indirect actions under the Framework Programme of the European Atomic Energy Community and for the dissemination of research results.
- **6/2011:** The amended proposal for a Regulation of the European Parliament and of the Council amending Regulation (EC) No 1073/1999 concerning investigations conducted by the European Anti-Fraud Office OLAF and repealing Regulation (Euratom) No 1074/1999.

Opinion 7/2011 covered proposals for regulation of the European Parliament and of the Council laying down common provisions on **Cohesion spending**, which could represent up to 45 % of total EU expenditure for the 2014–20 period. The contribution of the EU budget to meeting Europe 2020 objectives depends to a large extent on an economic, efficient and effective use of these funds. This will also impact on the credibility and legitimacy of EU action. The ongoing challenge is to obtain good quality results from a scheme when funds are pre-allocated to Member States and absorption is an implicit objective. Effective supervision and accountability by the Commission would help Member States use the funds successfully.

The opinions are published in full on the ECA's website www.eca.europa.eu in all official EU languages.

THE ECA POSITION PAPER: CONSEQUENCES FOR PUBLIC ACCOUNTABILITY AND PUBLIC AUDIT IN THE EU AND THE ROLE OF THE ECA IN THE LIGHT OF CURRENT FINANCIAL AND ECONOMIC CRISIS

The ongoing global **financial and economic crisis** has major consequences for the European Union. In response to the crisis, the EU has taken measures to support the sustainability of the financial sector, to promote economic recovery and growth, to provide financial assistance to Member States and to strengthen fiscal and economy policy coordination between them. These measures have important implications for the use of public funds — taxes paid by citizens — in the EU. The changes in the economic policy set-up of the Union raise new challenges for accountability, transparency and public audit.

The ECA considers that these new measures should respect the principle that where **public funds** are at stake there should be adequate arrangements for transparency, public accountability and public audit. Therefore, on 19 May 2011, the ECA issued a position paper on the consequences for public accountability and public audit in the EU and the role of the ECA in the light of the current financial and economic crisis.

In its paper, the **ECA concludes** that it will carry out audits in relation to the new supervisory authorities, assistance mechanisms with EU budget guarantee and — to the extent possible — the Commission's activities in the European Semester. The ECA identified cases where public audit arrangements are not adequate. For example, it considers that the Treaty establishing the European Stability Mechanism should include provision for public external audit. Finally, the ECA noted a number of cases where accountability and transparency issues need to be reflected on by the competent institutions within the Union, in particular the European Parliament and the Council. They concern accounting/audit standards, central banking activities and the follow-up of fiscal policies under the new set of rules being established.

COOPERATION WITH OTHER SAIS

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

- the **Contact Committee** of the SAIs of EU Member States;
- the **Network of SAIs** of candidate and potential candidate countries to the EU; and
- **international organisations** for public audit institutions, notably the International Organisation of Supreme Audit Institutions (INTOSAI) and its European regional group (EUROSAI).

CONTACT COMMITTEE

The EU Treaty requires the ECA and national audit bodies of the Member States to **co-operate** in a spirit of trust, while maintaining their independence. The ECA actively co-operates with the EU Member State SAIs through the Contact Committee framework. The Contact Committee is an assembly of the heads of the EU SAIs and the ECA, and meets each year. It provides a forum for cooperation and exchange of professional knowledge and experience on the audit of EU funds and other EU-related issues. Day-to-day contacts are maintained through liaison officers appointed by each institution. Working groups and networks have been set up to help develop common positions and practices.

During 2011, the ECA was the **acting chair** of the Contact Committee, continued with its administrative support to the Committee and participated actively in its various working groups and networks.

The **2011 annual meeting** of the Contact Committee was held at the ECA's premises on 13–14 October 2011. The main focus of the meeting was a seminar on the impact for EU SAIs and the ECA of the European Semester and other recent developments in EU economic governance. This included the regulation and supervision of financial systems and institutions, state aid to the financial sector and audit of the euro crisis management mechanisms.

The Contact Committee adopted a **statement** (see box) addressed to the European Parliament, European Council and European Commission, as well as parliaments and governments of EU Member States. The Committee also adopted a resolution acknowledging the call of the SAIs of the euro area countries for the provision of adequate external public audit of the European Stability Mechanism. Both the statement and the resolution are available on the Contact Committee website www.contactcommittee.eu.



The key note speakers of the 2011 Contact Committee meeting: Commissioner Olli Rehn, Minister of Finance of Luxembourg Luc Frieden and Vice-President Vítor Constâncio of the European Central Bank, together with ECA President Vítor Caldeira (third from the left).

STATEMENT ON THE IMPACT OF THE EUROPEAN SEMESTER AND OTHER RECENT DEVELOPMENTS IN EU ECONOMIC GOVERNANCE ON THE SUPREME AUDIT INSTITUTIONS OF THE MEMBER STATES OF THE EUROPEAN UNION AND THE EUROPEAN COURT OF AUDITORS, ADOPTED BY THE CONTACT COMMITTEE ON 14 OCTOBER 2011, HIGHLIGHTED THE PRINCIPLES TO BE RESPECTED WHEN PUBLIC FUNDS ARE AT STAKE, AND SETS OUT THE MAIN LINES FOR FUTURE COOPERATION

Adequate public audit of public funds

The Contact Committee believes that the following principles should be respected when public funds are at stake:

- *'sufficient **transparency**, in the form of reliable and timely information (including national statistics) on actual or intended use of public funds, and the risks to which they are exposed;*
- *appropriate **accountability**, involving public scrutiny of the operations and holding to account decision-makers and those responsible for managing the processes; and*
- *adequate **public audit**, to provide assurance and information on the use of public funds and the risks to which they are exposed, thereby contributing to transparency and providing a basis for accountability.'*

In order to ensure an effective public audit response to the financial and economic crisis and its aftermath, EU SAIs and the ECA *'will consider — to the extent possible and within their respective mandates — how to adapt their audit work to the new context. In some cases this process has already started, through the introduction of new and updated audit tasks.'*

Further developing cooperation between EU SAIs and the ECA

The increasing interdependence of the economies of the EU reinforces the value of the common perspective that can be gained from cooperating closely through the Contact Committee framework. This can include:

- *'sharing the **lessons learned** from recent audit results, and their impact, as a way of accumulating and sharing knowledge;*
- *identifying and disseminating current **best practices** in auditing the new (and existing) arrangements;*
- *identifying **public audit gaps** and the potential for **new audit tasks and new partnerships**, and considering how these could be best addressed; and*
- *considering the development of specific **audit methods** and techniques for use by SAIs, and tools and guidance for implementing them.'*

To develop these actions, the Contact Committee will use its existing networks covering the audit of Europe 2020 and fiscal policy, as well as parallel or coordinated audits and other cooperative activities established for the purpose.



2011 Contact Committee meeting on 13–14 October in Luxembourg

NETWORK OF THE SAIs OF CANDIDATE AND POTENTIAL CANDIDATE COUNTRIES

The ECA actively **participated** in the activities of the Network of the SAIs of the candidate and potential candidate countries for joining the EU¹. The organisational structure of the Network is similar to the Contact Committee, and involves periodic meetings of the heads of SAIs and liaison officers, as well as working groups, seminars, workshops and parallel audits. The main goal is to promote the implementation of audit methods and techniques in compliance with international standards and best EU practices.

A **Presidents' meeting** of the Network took place on 8–9 March 2011 in Istanbul. It was co-chaired by the Turkish Court of Accounts and the ECA, and led to the adoption of the Istanbul Agreement, including an outline work plan of future activities, which is to be implemented with the active support of the ECA, SIGMA and representatives of EU SAIs.

OTHER COOPERATION

In 2011 the ECA led a **peer review** of the Office of the Auditor General of Norway, along with the SAIs of Austria and Finland. The report was published in June 2011.

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 participated actively in the subcommittees on professional auditing standards. During 2011, following the endorsement of a comprehensive set of International Standards (ISSAIs) by the XX INCOSAI in November 2010, these subcommittees began to implement their new work plans, focused on the harmonisation of the ISSAI framework and the dissemination of the standards and guidelines. The ECA also provided input to the subcommittee on promoting best practices and quality assurance through voluntary peer reviews, the subcommittee on promoting increased capacity building activities among INTOSAI members, as well as the INTOSAI Working Group on Environmental Audit.

Moreover, the ECA has chaired the **INTOSAI Working Group** on Accountability for, and Audit of, Disaster-related Aid since 2008. A main aim of this Working Group is to develop guidance and to identify and disseminate good practices in the area of accountability for disaster-related aid, concentrating on activities directed to stakeholders (multilaterals, aid organisations, governments, private auditors).

¹ As at February 2012 the Network comprises five candidate countries (Croatia, the former Yugoslav Republic of Macedonia, Iceland, Montenegro, Turkey) and three potential candidate countries (Albania, Bosnia and Herzegovina, Serbia).

In respect to EUROSAI, the ECA took a step forward by becoming a **member of the Governing Board** for the next six-year period. The ECA actively participated in the VIII EUROSAI Congress (30 May–2 June 2011), which focused on the challenges, demands and responsibilities of public managers and the role of SAIs, and on the audit of the independent regulatory agencies by SAIs. A statement was approved reinforcing SAI independence.

In December 2011, common efforts of the INTOSAI community and its regional working groups to strengthen SAI independence and provide recognition of the Lima and Mexico Declarations culminated in the adoption, by the **United Nations General Assembly**, of a resolution on ‘Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions’.



OTHER ACTIVITIES

EUROPEAN COURT OF AUDITORS' POWERS IN THE CONTEXT OF THE AUDIT OF VAT OWN RESOURCES

On 15 November 2011, the **Court of Justice** delivered its **judgment** in Case C-539/09 Commission versus Federal Republic of Germany, concerning the audit powers of the ECA in the field of own resources accruing from value added tax (VAT).

The case originated in the refusal in 2006 of the **German Federal Ministry of Finance** to allow the ECA to carry out audits in Germany concerning administrative cooperation between the Member States under Council Regulation No 1798/2003 in the field of VAT. In preparing its special report 8/2007, the ECA chose to audit in eight Member States, including Germany. The German authorities raised objections to the ECA's right to conduct the audit in question.

The German Government argued that the **cooperation between Member States** organised by Regulation No 1798/2003 had no direct link to EU revenue, as VAT is a national tax and must be distinguished from VAT own resources. The latter are established after a series of calculations and correspond to a relatively small proportion of the amounts the Member States collect as VAT.

The Court of Justice decisively **rejected** the reasoning of the German Government, based on a strict distinction between the Member States' VAT revenue and the Union's own resources accruing from VAT. Following the arguments submitted by the Commission, the European Parliament and the ECA, the Court of Justice stressed the dependence of VAT own resources on the Member States' VAT revenue.

The Court of Justice **recalled** that the scope of Regulation No 1798/2003 on administrative cooperation in the field of value added tax was to establish mechanisms of cooperation between the Member States which allow them to combat VAT fraud and to collect VAT more effectively. This also has an impact on the availability to the EU budget of VAT own resources. If the cooperation between national authorities is carried out effectively and in accordance with the regulation, it contributes to a reduction in fraud and to the effective collection of VAT in the Member States. It helps maintain VAT own resources at the level required under the various EU legislative acts applicable, and thus to the preservation of the general equilibrium of own resources.

The Court of Justice **concluded** that the ECA had the power to carry out the planned audit relating to administrative cooperation in the field of VAT, because it was dealing with EU revenue from the aspect of its legality and its sound financial management, and thus had a direct link with the powers conferred on the Court of Auditors by the Treaty.

Case C-539/09 is the first case in which the Court of Justice has had to rule explicitly on the scope of the **audit powers** of the ECA. The judgment of the Court of Justice is valuable and encouraging as it clarifies and corroborates the audit power of the institution vis-à-vis the Member States.

LÁZARO AWARD FOR RESEARCH ON PUBLIC SECTOR AUDITING

In 2010, the ECA launched its **first award** for research on public sector auditing with the aim of developing links with the academic community and supporting the development of public audit in Europe. This first edition of the award paid tribute to the memory of Mr Jesús Lázaro Cuenca, a former Director at the ECA, who contributed over many years to developing the audit methods and approaches of the institution.

The Lázaro Award **winners**, Mrs Sara Belleil and Mr José Antonio Fernández Ajenjo, received their prizes from ECA President Vítor Caldeira and the Selection Committee at a public ceremony, which took place on 5 July 2011 at the ECA in Luxembourg. Both award winners presented their theses during an academic session:

Mrs Sara Belleil: 'Contribution to sociology of management practices in European policy audits of humanitarian NGOs: between importation and appropriation'.

Mr José Antonio Fernández Ajenjo: 'The control of public administration and the fight against corruption: Special reference to the Court of Audit and General audit of the state administration'.

The European Court of Auditors was very saddened to learn of the untimely death of Sara Belleil on 30 November 2011, and would like to pay tribute to the quality and importance of her work.



President Caldeira with Lázaro award winners Sara Belleil and José Antonio Fernández Ajenjo

OUR MANAGEMENT

IMPLEMENTING THE STRATEGY FOR 2009 TO 2012

In the past few years, the ECA has been engaged in an **internal reform** process. This included the development of its first strategy for 2009 to 2012² setting overall goals to:

- maximise the overall **impact** of audits; and
- increase **efficiency** by making best use of resources.

Many of the strategy priority actions have been completed. The remaining actions will be addressed during 2012. The main achievements in 2011 were:

- an increase in the **number of special reports**, with an average of 16 per year from 2009 to 2011, exceeding the annual target of 12 to 15 reports;
- **influential contributions** in view of EU budget reform;
- launching the production of **regular follow-up** to previous findings, including an overall follow-up report to be produced for the first time in 2012;
- revised **audit procedures and standards**;
- increasing emphasis on **core activities** by reallocating staff from support services to audit; and
- publication of a **position paper** on consequences for public accountability and public audit in the EU and the role of the ECA in the light of current financial and economic crisis.

² The 'Audit Strategy 2009–12' is available on www.eca.europa.eu.

ETHICAL GUIDELINES FOR THE EUROPEAN COURT OF AUDITORS

Following the recommendation of the International Peer Review conducted in 2008, the ECA has strengthened its **audit management framework** by adopting a set of Ethical Guidelines based on the INTOSAI Code of Ethics and International Standard on Quality Control for Supreme Audit Institutions³. In this context, the ECA has established a procedure for providing, on an annual basis, reasonable assurance that its audit staff comply with the relevant ethical requirements.

Respect of the **values** laid down in the Ethical Guidelines, such as impartiality, objectivity, loyalty and professional confidentiality, guarantees that ECA employees act in the public interest, with no influence from outside pressures, or personal or financial interests. The ECA's framework for professional behaviour enhances the credibility of the information provided to its stakeholders.

³ ISSAI 30 and ISSAI 40.

TOWARDS A NEW ECA STRATEGY FOR 2013 TO 2017

Building on the achievements of the current strategy ending in 2012, the development of the next strategy started in 2011. The ECA is seizing the opportunity to adapt to developments in the EU and in the audit profession and to address the needs and expectations of its stakeholders.



Members of the European Court of Auditors

MEASURING THE ECA'S PERFORMANCE IN 2011

Since 2008, the ECA has developed progressively a set of key performance indicators (KPIs) to:

- inform **management** of progress towards achieving the goals for the 2009–12 period;
- support **decision-making**; and
- provide information on performance to its **stakeholders**.

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.

2011 is the second year in which the full set of the indicators has been available. The ECA continues to be **encouraged** by the results of its key performance indicators, particularly on the quality and impact of its audit work. In addition, the indicators provide a good basis for identifying where progress is required and the issues to be addressed in order to improve future performance.

QUALITY AND IMPACT OF THE ECA'S WORK

The ECA assesses the quality and impact of its reports based on stakeholder appraisals, expert reviews and following up on the recommendations it makes.

STAKEHOLDER APPRAISAL

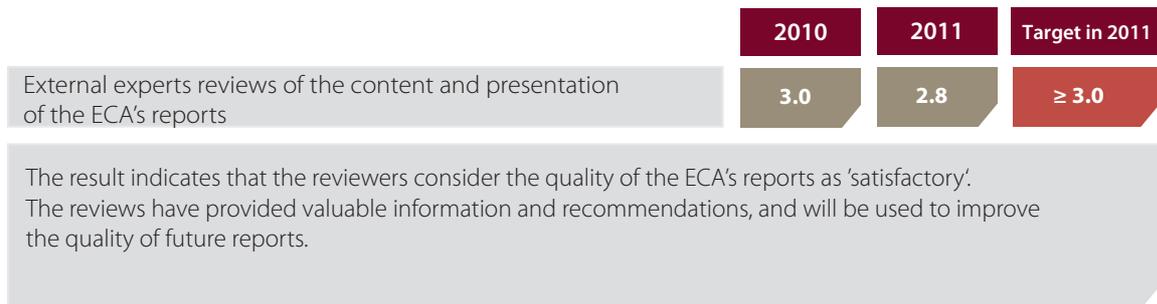
Using a survey, the ECA invited the principal users of its reports (the Committee on Budgetary Control of the European Parliament and the Budget Committee of the Council) and its principal auditees (mainly staff of the European Commission) **to rate the quality and impact** of its 2010 annual reports on the EU general budget and the European Development Funds and the special reports published during 2011. Respondents to the survey used a five point scale (1 — very poor, 2 — poor, 3 — sufficient, 4 — good, 5 — very good).

| | 2010 | 2011 | Target in 2011 |
|---|------|------|----------------|
| Principal user appraisal of the quality and impact of the ECA's reports | 4.2 | 4.0 | ≥ 4.2 |
| Auditee appraisal of the quality and impact of the ECA's audits | 3.7 | 3.7 | ≥ 3.7 |

This result indicates that on average the principal users of the ECA's reports consider them as 'good'. In particular, the respondents appreciate the clarity and usefulness of the reports as well as the professionalism of the ECA's audit staff.

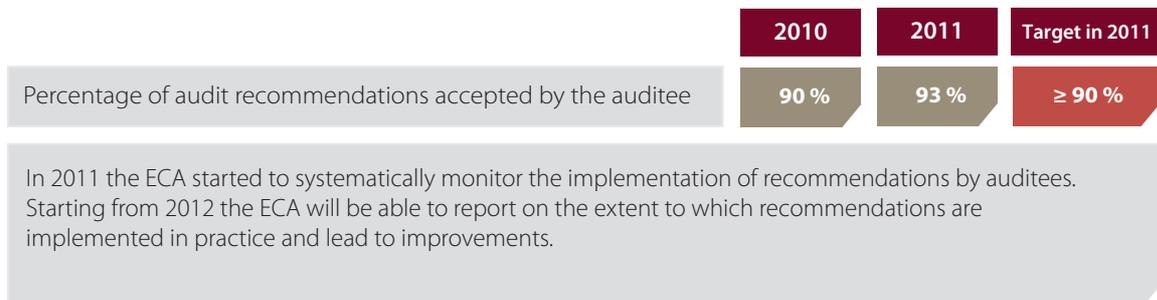
EXPERT REVIEWS

Two external parties have reviewed the **content and presentation** of a sample of the ECA's reports published in 2011. The reviewers assessed four special reports and the 2010 annual reports on the general budget and the EDFs. They rated the quality of various aspects of the reports on a four point scale ranging from 'significantly impaired' (1) to 'high quality' (4).



FOLLOW-UP OF RECOMMENDATIONS

The ECA contributes to **improving financial management** through its recommendations. To lead to change the recommendations first need to be accepted by auditees and then be implemented. The indicator is based on the recommendations in the annual reports and special reports published in 2011.



EFFICIENT AND EFFECTIVE USE OF RESOURCES

The ECA assesses the efficiency and effectiveness of its use of resources in terms of its ability to: produce timely reports and findings; meet its obligations regarding financial management; and ensure the well-being and professional competence of its staff.

TIMELINESS OF REPORTS

The ECA aims to **adopt all its audit reports within the deadlines** set. For annual reports and specific annual reports there are statutory deadlines to respect. For special reports there is no statutory publication deadline, and the planned adoption date is used as the measure of timeliness.

| | 2010 | 2011 | Target in 2011 ⁴ |
|---|------|------|-----------------------------|
| Number of reports adopted compared to planned | 90 % | 83 % | 90 % |
| Number of reports adopted on time | 80 % | 75 % | 90 % |

Overall, the ECA did not fully meet its targets in 2011. While the very ambitious target for the number of reports was not met, the overall objective of 12–15 special reports per year was exceeded and output was higher than in 2010. All annual reports, and all but one specific annual report, were adopted as planned and published within the deadline.

⁴ The targets for these indicators have been revised from 100 % (2008–10) to 90 % to take account of unexpected events.

TIMELINESS OF FINDINGS

Statements of preliminary findings (SPFs) detail the **specific audit findings** and are prepared after audit visits to each Member State or the Commission. They are used by the ECA to confirm the factual accuracy of its findings with the auditees, and therefore represent a key milestone in the audit process. The ECA previously identified the need for significant improvement in the timeliness of the issue of SPFs, setting a target to issue 80 % of SPFs within two months of the related audit visit by the end of 2012.

| | 2010 | 2011 | Target in 2011 |
|---|------|------|-----------------|
| Percentage of Statements of Preliminary Findings issued on time | 54 % | 58 % | 80 % by 2012 |

The ECA improved timeliness of SPFs in 2011, although the target has not yet been reached. There has been significant progress over the last three years (with only 27 % on time in 2008) and the ECA will continue its efforts to improve further its performance.

EXTERNAL APPRAISAL OF FINANCIAL MANAGEMENT

The ECA seeks to receive an **unqualified opinion on its financial statements** and on the use of its resources from its external auditors as well as to be granted discharge by the European Parliament after a positive recommendation from the Council.

| | 2010 | 2011 | Target |
|--|------|------|--------|
| Unqualified opinion of the external auditor and discharge granted | Yes | Yes | Yes |
| The external auditor also provides assurance on the use of resources and control procedures. | | | |

PROFESSIONAL TRAINING

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

| | 2010 | 2011 | Target |
|---|----------|----------|----------|
| Average non-language professional training days per auditor | 5.7 days | 6.1 days | ≥ 5 days |
| The ECA again exceeded the target for professional training for audit staff, reflecting the importance it places on staff development. When language training is taken into account staff receive on average 9.3 days per year. | | | |

STAFF SATISFACTION

According to an **internal survey** in 2009 on staff satisfaction, 86 % of the ECA's staff were generally satisfied with their job. The overall average staff satisfaction was rated as 2.8 on a composite scale from 1 to 4, where a result over 2.5 indicates general satisfaction. The ECA aims to maintain or improve on this result in 2012 when a similar survey will be conducted.

SUPPORTING AUDIT

The success of the ECA's audit activities depends, to a great extent, on the quality of its specialised support services. These services provide the logistical and technical expertise that enable the ECA to:

- recruit, retain and motivate its **staff** and develop their professional skills;
- communicate the audit results in all **official languages** of the EU;
- use **information technology** to best effect;
- manage its **budget** and maintain its **facilities**; and
- conduct **audit visits** to obtain on-the-spot evidence in the countries in which EU funds are raised and spent.

HUMAN RESOURCES

STAFF ALLOCATION

The ECA's **main asset** is its staff. On 31 December 2011, the ECA had an authorised staff allocation of 887 officials and temporary agents (excluding Members, contract agents, seconded national experts and trainees). 564 of these are in audit chambers (including 123 in private offices of the Members), 148 in translation, 148 in administrative support and 27 in the Presidency.

To contribute to the goal of making best use of resources, all services in 2011 continued to look for and introduce **efficiency measures** based on the simplification of procedures. Whenever possible, non-audit posts made available through efficiency gains were redeployed to audit, contributing over half of the 12.6 % increase in the number of posts dedicated to audit since 2008.

| Distribution of ECA staff posts at 31 December | 2008 | 2009 | 2010 | 2011 |
|--|------|------|------|------------|
| Audit | 501 | 525 | 557 | 564 |
| Translation | 163 | 163 | 151 | 148 |
| Administration | 173 | 171 | 157 | 148 |
| Presidency | 20 | 21 | 24 | 27 |
| Total | 857 | 880 | 889 | 887 |

RECRUITMENT

ECA **staff** have a broad range of academic and professional backgrounds, and the quality of their work and 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). The ECA also provides a number of traineeships to university graduates for periods of three to five months.

In 2011, the ECA recruited 75 employees: 23 officials, 24 temporary agents and 28 contract agents. The ECA was particularly successful in recruiting new staff to audit posts. There were 25 vacant posts as at 31 December 2011, significantly fewer than the 44 in 2010. This brought the **vacancy rate below 3 %** for the first time.

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.

| | Male | Female |
|------|------|--------|
| 2011 | 54 % | 46 % |
| 2010 | 50 % | 50 % |

The charts below show the proportion of men and women by level of **responsibility** at 31 December 2011. Of the 65 directors and heads of unit, 18 (28 %) are women, which is in line with previous years. Most are employed in the translation directorate and administrative departments.

Assistants (AST level)

| | Male | Female |
|------|------|--------|
| 2011 | 33 % | 67 % |
| 2010 | 31 % | 69 % |

Auditors — administrators (AD level)

| | Male | Female |
|------|------|--------|
| 2011 | 61 % | 39 % |
| 2010 | 62 % | 38 % |

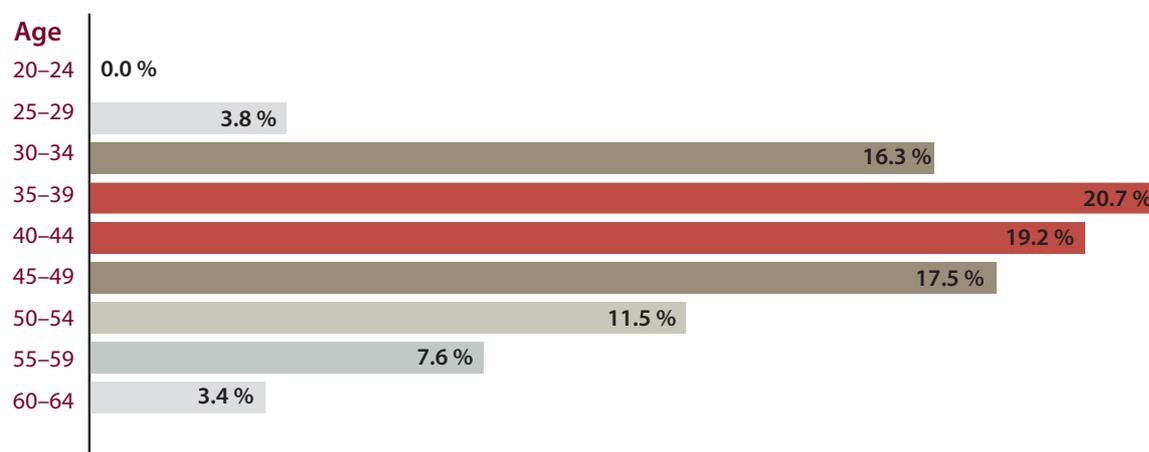
Directors and Heads of Unit

| | Male | Female |
|------|------|--------|
| 2011 | 72 % | 28 % |
| 2010 | 70 % | 30 % |

The proportion of women at AD level is increasing. After the latest recruitment campaigns, 45 % of all staff at AD5 to AD8 levels are female.

AGE PROFILE

The age profile of staff in active service at 31 December shows that 60 % of the ECA's staff members are aged 44 or less.



23 out of the 65 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

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

In 2011, the ECA's staff each received an average of **9.3 days** of professional training. Language courses represented 54 % of this total, compared with 57 % in 2010. In addition to language training, auditors received 6.1 days of professional training in 2011, thus meeting a key target of the institution.

In 2011, the content of training was **improved** and new courses developed to meet audit priorities. Moreover, the ECA has streamlined the management system for training activities.

TRANSLATION

Translation is an **audit support activity** which enables the ECA to fulfil its mission and to meet its communication objectives. In 2011, the total volume of translated work was similar to the 2010 workload. Over 99 % of translation services were performed on time.

During 2011 further posts and staff were redeployed from the Translation Directorate to audit.

The ECA's Translation Directorate also provided **linguistic support** to auditors on audit visits and during the successive phases of the drafting of audit reports. Support was also provided to the Contact Committee, INTOSAI working groups and for other specific needs related to the ECA's audit activities. The ECA's Translation Directorate was also active in interinstitutional and international professional forums.

INFORMATION TECHNOLOGY

Information technology (IT) is an enabler for meeting the overall goals of the ECA's strategy for 2009 to 2012. In 2011, the ECA:

- reinforced its investment in **knowledge management** by launching the development of a new version of its audit support tool (project called Assyst2) based on its recently deployed collaboration platform;
- actively pursued its efforts to **streamline internal processes** through electronic workflows in areas such as missions and training management, and electronic archiving of personal files, with a view to continuously improving efficiency and effectiveness;
- continued to **support mobility** through the deployment of smart phones and portable computers as well as the launching of an extranet project which will also be key to facilitate electronic exchanges with a variety of the ECA's partners (inter alia auditees, budgetary authority, new recruits, suppliers).

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 the ECA's IT services.

ADMINISTRATION AND FACILITIES

The Finance and Support Directorate's **mission** is to provide the ECA's auditors in an efficient, effective and timely manner with appropriate support services and to ensure that the necessary financing, internal controls and accounting mechanisms are in place to support all of the ECA's activities. In 2011, the Directorate continued to focus on further improving efficiency and effectiveness in order to release resources for redeployment to audit.

Following an agreement reached with the budgetary authority (Council and Parliament) towards the end of 2008 on the financing of its **K3 building**, a major activity in 2011 was the construction of this second extension of the ECA's main building. The civil engineering works were completed during 2011 and the building was closed to the elements by the end of the year. Significant progress has been made in fitting out the interior of the building. The construction of the building is on schedule and within budget. It is expected that the ECA will take possession of the building by the end of 2012, with removals taking place in the first quarter of 2013.

Reviews carried out in 2009 and 2010 led the ECA to conclude that its **security objectives** could best be achieved and risks managed most efficiently and cost effectively by internalising the provision of its reception and security services. This was done in April 2011 with the replacement of the external security contractor by a small team of contract workers. These new arrangements are operating well. Comparing 2009 and 2012, annual costs will be reduced by an amount in excess of € 0.5 million.

AUDIT VISITS

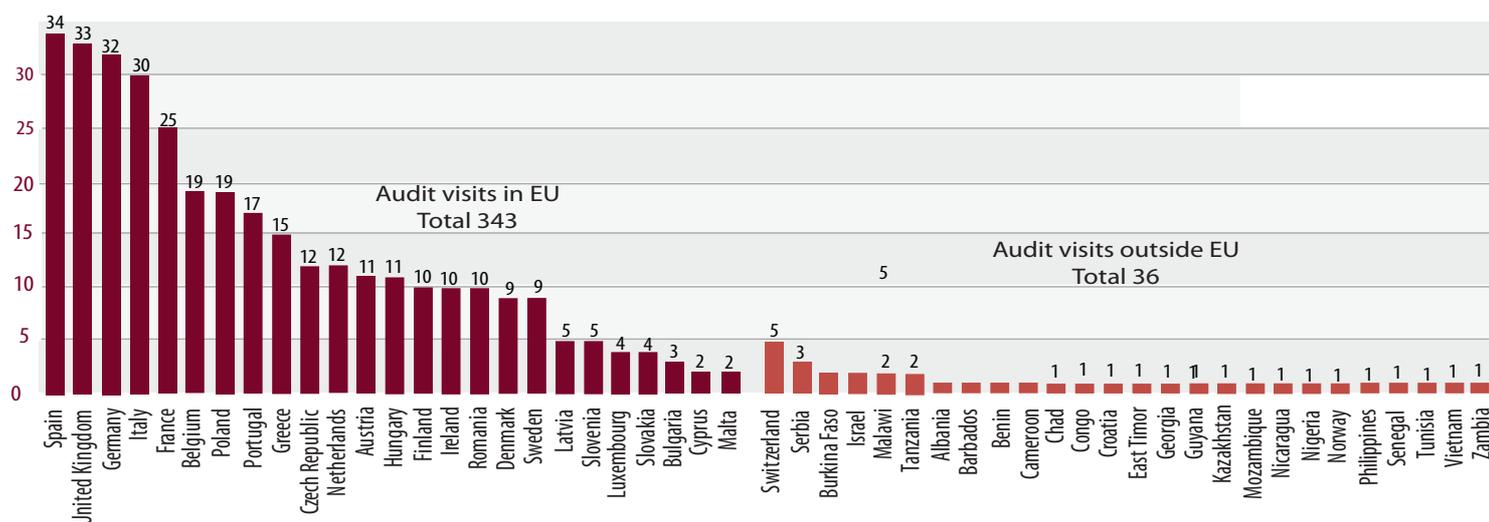
The ECA's audit work requires auditors to make visits to Member States' authorities and other recipients of EU funds, as well as to the headquarters of international organisations such as the UN. The purpose of these visits is to obtain direct audit evidence.

Audit 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 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 the length of audit visits can range from a few days to two weeks, depending on the type of audit and travelling distance.

In **2011**, the ECA undertook a total of 379 audit visits⁵ — 343 in Member States and 36 outside the EU — in respect of annual, specific annual and selected audit tasks. A comparable number of audit visits were made to the EU institutions and bodies in Brussels and Luxembourg.

⁵ This reflects the number of Member and beneficiary States visited for each audit task. The corresponding number for 2010 was 376.

2011 AUDIT VISITS



FINANCIAL INFORMATION

The ECA is **financed** by the general budget of the EU. The budget represents around 0.1 % of total EU spending, and less than 2 % of total administrative spending.

IMPLEMENTATION OF THE 2011 BUDGET

| 2011 FINANCIAL YEAR | Final appropriations | Commitments | % use (commit./appr.) | Payments |
|--|----------------------|----------------|-----------------------|----------------|
| (€ 000s) | | | | |
| Title 1: People working with the institution | | | | |
| 10 — Members of the institution | 13 411 | 12 952 | 97 % | 12 817 |
| 12 — Official and temporary staff | 95 416 | 87 624 | 92 % | 87 382 |
| 14 — Other staff and external services | 4 205 | 3 864 | 92 % | 3 820 |
| 162 — Missions | 3 652 | 3 417 | 94 % | 2 827 |
| 161 + 163 + 165 — Other expenditure relating to persons working for the institution | 2 485 | 2 115 | 85 % | 1 530 |
| Subtotal Title 1 | 119 169 | 109 972 | 92 % | 108 376 |
| Title 2: Buildings, movable property, equipment and miscellaneous operating expenditure | | | | |
| 20 — Immovable property | 14 171 | 13 915 | 98 % | 5 913 |
| 210 — IT&T | 6 500 | 6 500 | 100 % | 4 702 |
| 212 + 214 + 216 — Movable property and associated costs | 816 | 746 | 91 % | 691 |
| 23 — Current administrative expenditure | 542 | 482 | 89 % | 265 |
| 25 — Meetings, conferences | 893 | 753 | 84 % | 570 |
| 27 — Information and publishing | 2 240 | 1 969 | 88 % | 733 |
| Subtotal Title 2 | 25 162 | 24 365 | 97 % | 12 874 |
| Total ECA | 144 331 | 134 337 | 93 % | 121 250 |

In 2011, the overall rate of implementation for the budget was 93 %. For Title 1 this rate was 92 %, with the lowest percentage (85 %) in Chapter 16 (Other expenditure relating to persons working for the institution). The average implementation rate for Title 2 was 97 %.

The amount of payments for Chapter 20 (Immovable property, e.g. buildings) is affected by the construction of the K3 building. The third tranche of financing of € 7 million for this project was included in the 2011 budget; this amount has been committed and partly paid in 2011. The balance of appropriations for the K3 building is carried forward to 2012 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.

The total cost of the construction of the K3 building is estimated at € 79 million, to be financed in five successive years: € 55 million in 2009; € 11 million in 2010; € 7 million in 2011; and € 3 million in 2012 and 2013 respectively.

BUDGET FOR 2012

The 2012 budget represents a decrease of 1.28 % on that for 2011, mainly due to the lower appropriations for the new K3 building.

| BUDGET | 2012 | 2011 |
|--|----------------|----------------|
| | | (€ 000s) |
| Title 1: People working with the institution | | |
| 10 — Members of the institution | 14 592 | 12 930 |
| 12 — Official and temporary staff | 96 487 | 95 957 |
| 14 — Other staff and external services | 4 173 | 3 825 |
| 162 — Missions | 3 802 | 3 652 |
| 161 + 163 + 165 — Other expenditure relating to persons working for the institution | 2 682 | 2 485 |
| Subtotal Title 1 | 121 736 | 118 849 |
| Title 2: Buildings, movable property, equipment and miscellaneous operating expenditure | | |
| 20 — Immovable property | 9 941 | 14 611 |
| 210 — IT&T | 6 501 | 6 500 |
| 212 + 214 + 216 — Movable property and associated costs | 837 | 816 |
| 23 — Current administrative expenditure | 525 | 422 |
| 25 — Meetings, conferences | 793 | 893 |
| 27 — Information and publishing | 2 144 | 2 240 |
| Subtotal Title 2 | 20 741 | 25 482 |
| Total ECA | 142 477 | 144 331 |

AUDIT AND ACCOUNTABILITY

INTERNAL AUDIT

The **mission** of the Internal Audit Service (IAS) is to provide independent, objective assurance and consulting services designed to add value to and improve the operations of the ECA. It assists the ECA in accomplishing the Institution's objectives by bringing a systematic and disciplined approach in order to evaluate and make recommendations for improving the effectiveness of risk management, control and governance processes.

In performing its mission, the IAS acts in accordance with the EU's Financial Regulation, with the rules applicable to European Union officials as well as the International Standards for the **Professional Practice of Internal Auditing**. Since 2009, the ECA's Internal Audit Service has been certified as complying with the internationally recognised standards of the Institute of Internal Auditors.

In **2011**, the ECA's IAS reported on: the state of implementation of the ECA's Strategy for 2009 to 2012; the implementation of the KPIs; the construction of the ECA's new K3 building; the use of the fiduciary account for payments to eligible beneficiaries; as well as the follow up to its previous audit recommendations. The IAS provided full support to the ECA's external auditors in their certification audit of the ECA's financial statements and the effectiveness of its internal control procedures.

The ECA's **Internal Audit Committee** advises on matters of internal audit and monitors the associated internal control environment in the context of the Institution's risk management processes. During 2011, the Internal Audit Committee and the Internal Auditor discussed the results of the IAS audits, the implementation of the action plans having an impact on the internal control environment as well as risks affecting the Institution's governance.

EXTERNAL AUDIT OF THE COURT

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

The report of the external auditor — **PricewaterhouseCoopers Sàrl** — on the ECA's accounts for the 2010 financial year was published in September 2011⁶.

⁶ OJ C 267, 9.9.2011.

OPINIONS OF THE EXTERNAL AUDITOR — 2010 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 2010, and its cash flows for the year then ended in accordance with Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002, the 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 Accounting Rules of the European Union'.

REGARDING THE USE OF RESOURCES AND THE CONTROL 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:

- (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.'

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 complete 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; and
 - 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.

This assurance is based on my judgment and on the information at my disposal, such as the results of *ex post* checks, 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, 8 March 2012.

Eduardo RUIZ GARCÍA
Secretary-General



GOVERNANCE OF THE EUROPEAN COURT OF AUDITORS

The European Court of Auditors is the independent external audit institution of the European Union based in Luxembourg. The ECA operates as a **collegiate body** of 27 Members, one from each Member State. Its Members are appointed by the Council, after consultation with the European Parliament, for a renewable term of six years. The Members elect one of their number as President for a renewable term of three years.

The ECA is organised in **Chambers**, to which Members are assigned. The Chambers prepare reports and opinions for adoption by the Court. Audit Chambers I to IV cover the different areas of revenue and expenditure, and the fifth, the CEAD Chamber, is responsible for horizontal issues. The Chambers are supported by Audit Directorates of staff. Following the 2010 revision of the ECA's **rules of procedure**, certain categories of the ECA's reports and opinions can be adopted by Chambers, rather than the full Court.

The **administrative committee** is chaired by the President and comprises the Deans of the Chambers and the Secretary-General (responsible for the ECA's administrative and support services). The committee plays a coordinating role and prepares Court decisions on issues of strategic planning, performance management and administrative matters.

Each **Member** is responsible for specific tasks, primarily within auditing. Members present audit proposal and reports on the tasks for which they are responsible at Chamber and Court level. Once a report has been adopted, the reporting Member presents it to the European Parliament, Council and other relevant stakeholders. Members are supported by the staff of their private office and by the team assigned to the audit task.



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