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Cover photos:
- Vítor Manuel Caldeira, leaving ECA President
- Dr Louis Galea, leaving ECA Member
-Klaus-Heiner Lehne, new ECA President

ANNOUNCEMENT

2015 EU AUDIT

We are pleased to announce that our annual reports on the implementation of the 2015 EU budget and the European Development Funds will be published on **13 October 2016**. This is around one month earlier than previously, thanks to cooperation with the European Commission and after consultation with the Committee on Budgetary Control of the European Parliament.

In the reports we will provide assurance on how EU funds were used during the year, and highlight where they were most at risk of being misspent. We will also analyse why errors occur and provide recommendations on how to improve financial management. Our main aim is to assist the European Parliament and the Council in scrutinising EU financial management as part of the discharge procedure on the EU budget.

Our annual reports in full, together with accompanying material will be available from 9.00 am on 13 October on our website: eca.europa.eu

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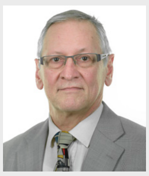
27 

The most challenging aspect was to move the institution forward

Interview with Vítor Manuel Caldeira, leaving ECA President

By Rosmarie Carotti

Vítor Manuel Caldeira served from March 2000 as a Member and from 2008 as the ECA's 10th President. His mandate was renewed in January 2011 for a second term, and in January 2014 for a third term.

Vítor Manuel Caldeira, leaving ECA President

R. C.: Sir, the ECA President is primus inter pares among the ECA Members. However, what was your personal vision for the ECA and how did you try and achieve that vision?

Vítor Manuel Caldeira: My aim was always to help the institution to develop a vision and then adopt the right strategy to achieve that vision. Developing a vision for the ECA is not solely the work of the President; it should – in my view – be a collective endeavour involving all Members and the staff as well as stakeholders. If you recall, we organised peer reviews, we consulted external stakeholders and we set up internal working groups to identify where we could improve. We developed the first ECA strategy for the period 2009 to 2012 and then adopted the strategy for 2013 to 2017, which has led to a number of important organisational reforms that are now bearing fruit. We succeeded in improving the quality and the range of our outputs: reports, opinions and the new landscape reviews. And we also succeeded in strengthening the relations with our stakeholders who make use of our work. All this contributed positively to the ECA's development as an independent, professional institution.

R. C.: Is there something that did not work the way you had wanted?

Vítor Manuel Caldeira: I am sure there are many things we could have done or done better. The ECA certainly has room to do more work that is directly relevant to citizens. The role of the ECA is as a facilitator. We help build trust in the EU institutions. And to do that we will also need to foster closer links with European citizens.

That said, we have already made enormous efforts to improve communication. Our topics are increasingly on target and there are encouraging signs that our messages are hitting home. Precisely because these are difficult times for the European Union, the ECA should - in my view - continue to put serving European values and the Union's citizens at the heart of its strategy and work programme.

We now work more closely with the European Parliament than we used to in order to identify topics relevant to citizens. We also work more closely with national parliaments and our reports are increasingly drafted with national parliaments in mind.

We could also do more to make our reports attractive, user-friendly and accessible, for example developing a clear and concise reporting style and exploring new ways of publishing our results.

R. C.: In terms of audit, is the ECA shifting accent to economic governance?

Vítor Manuel Caldeira: Auditing EU economic governance has certainly become a priority for the ECA in recent years. That is because the EU has considerably developed its policies and structures in this area since the 2008 financial crisis.

Since then, the ECA has been given new audit responsibilities, for example with respect to the audits of the Single Supervisory Mechanism, the

Single Resolution Fund and the Single Resolution Board, as well as the new agencies that were set up to regulate the financial sector. We are also started to do performance audits in this area. A good example is the task we have ongoing on the "European Semester" which was introduced to help coordinate the Member States' macro-economic and fiscal policies.

The importance of EU economic governance is also reflected now in the ECA's organisational structure, with Chamber IV taking the lead on work in this area.

R. C.: Are there changes you would wish to be introduced in the audit work of the ECA for example in single audit ?

Vítor Manuel Caldeira: The concept of "single audit" in the EU goes back a long way. I remember being the reporting Member for the ECA's opinion on this matter in 2002. What we said then still holds true now.

To be effective, a single audit system of the EU budget requires effective internal control to be exercised first by the Commission and national authorities. At that time we advocated an integrated internal control system. And the Commission took important steps in that direction. However, considerable differences still remain at national level in Member States systems for managing and controlling how EU funds are spent.

The ECA has been encouraging further progress in this regard. At the same time, we have been working with the SAIs of the Member States in the Contact Committee, to promote cooperation between SAIs in the audit of EU funds.

The fact that there is a now a full set of international public audit standards for SAIs means we have a good basis on which to develop common audit methods.

R. C.: As President of the Portuguese Court of Audit what will you try to bring into the meetings of the Supreme Audit Institutions?

Vítor Manuel Caldeira: I hope to be able to continue to make good use of the experience I gained at the ECA. There are many important ongoing developments within the community of SAIs. And there are many areas where EU SAIs, in particular, are developing common approaches, for example in the audit of EU structural funds and the fiscal policies in the Member States. And at the next Contact Committee meeting of the EU SAIs and the ECA we will be discussing the audit of energy and climate policy. That is a policy area which is important not only for EU SAIs but also for SAIs the world-over.

R. C.: Energy and climate are only a small part of the sustainable development goals. What else can the ECA do? I think of contributing, for example, to combating corruption.

Vítor Manuel Caldeira: We should be ambitious but we also need to be realistic and see what we can achieve in a sustainable way, step by step. There the Contact Committee is seeing some progress in concrete areas, such as in the supervision of the financial sector. The issue of corruption and fraud is important as the auditor must disclose instances of suspected fraud and corruption.

It is also essential to identify the major risks of corruption and fraud at each stage of the process: when legislation is being adopted; when policies are being implemented; and when public funds are being spent. If you do not focus on taking measures to minimise or eradicate the risk of corruption and fraud, then you are always running behind. SAIs can share their experience and develop tools for mapping the major risks, which would help ensure the risks get addressed.

As President of the Portuguese Court of Auditors, I will also chair Portugal's national council for preventing corruption. So it is a topic that will be high on my agenda.

I think that the Portuguese Court of Auditors has already done good work in this field alongside the European Court of Auditors. We worked together on a EUROSAI project to develop the audit of ethical issues. The audit of ethical issues goes wider than corruption, covering also how conflicts of interest are dealt with and how managers should behave. This work is still ongoing at the level of EUROSAI and I hope it will eventually result in the adoption of auditing principles at the level of INTOSAI.

The ECA has already carried out audit work on the risk of conflicts of interest in EU agencies." Ethics" is an area of audit that I expect will develop. It may well come to be considered as a new "E" alongside the traditional "3 E's" of economy, efficiency, effectiveness, as perhaps will "Equity". I think these concepts will become increasingly relevant in the future within the SAI community.

R. C.: When you look back at your years as President, what was the most difficult challenge you faced?

Vítor Manuel Caldeira: The greatest challenge was to bring the College together, to achieve consensus about the direction in which to develop our institution. It is good to start with a diversity of viewpoints and important to engage in healthy arguments but in the end you need to build consensus on how to move forward. That what I strived to do throughout my time as President. It required patience and an ability to draw reasonable conclusions from discussions that reconciled often very different points of view.

Let me add a few final words of thanks to everyone, here in the ECA and also outside, to the Luxembourgish authorities, the supreme audit institutions, and all those who have made it possible for us to succeed in moving forward as a European institution. Thank you for all your excellent support and cooperation.

As I see it, I have three key tasks: to implement the reform of the ECA, to reform our products, and to boost the ECA's external impact

Interview with Klaus-Heiner Lehne, the newly appointed ECA President

By Rosmarie Carotti

On 13 September 2016 the ECA Members elected Klaus-Heiner Lehne, the German Member, to serve as President for a three-year term. He takes up his post on 1 October 2016.

Klaus-Heiner Lehne, ECA President

R.C.: Dear Mr Lehne, Mr President, as you will be taking up your duties in a few days' time, may I offer my sincerest congratulations on your appointment. A Member of the Court of Auditors since 2014, you have previously served as a Member of the European and German Parliaments and worked as a business lawyer. What was it that prompted you to put yourself forward as a candidate for the Presidency of the European Court of Auditors?

Klaus-Heiner Lehne: When you assume a role such as this, then of course you hope to make a difference and be in a position to exert influence, introduce changes and shape the future.

I sometimes feel that the ECA is something of a "hidden champion", that we can do more. I believe that the reforms made in recent years have indeed been crucial and were a step in the right direction in terms of reforming internal structures and, by extension, improving the performance of the ECA as a whole. But now we need to focus on reforming our products. In particular, we need to better tailor the annual report to match stakeholder needs and increase its relevance on performance issues.

Initially, I didn't rate my chances particularly highly when considering perhaps standing for President at the beginning of next year. And then came our President's unexpected decision to return to Portugal earlier, on 1 October 2016, and to schedule the election in September. Before the summer holidays I discussed it with many people at the ECA and was given the impression that I had their support and backing. Of course, I also discussed this move with my family.

R. C.: You have already touched on this issue, but what else would you like to achieve?

Klaus-Heiner Lehne: I also think that there is still room to improve public perception. The problem lies with the impact of our work. My goal is to be able to say at the end of these three years that we have made progress and improved performance in key fields. This concerns not only public perception, but also support for future legislation. Of course, since we are not legislators, we can only do the latter indirectly, by specifically pointing out where the problems lie and providing assistance.

R. C.: If I think of the new areas in which the ECA now finds itself working, particularly in relation to economic governance, I wonder how we might increase our visibility here?

Klaus-Heiner Lehne: This is a new area of responsibility for the EU, which emerged as a result of the 2008 financial crisis. Naturally, we need to respond to this, particularly as regards performance. There is a whole series of reports dealing with this area currently being prepared. Previously such activities were based in Chamber IV, which dealt with the area alongside auditing the institutions. We now have a fifth Chamber, which has taken over auditing the institutions. Chamber IV now focuses more on economic governance. The credibility of the entire European project essentially depends on these governance processes working.

Around 50% of the EU's GDP is made up of public sector spending. Only 1% of this money is spent by the EU, and the rest by the Member States. And this is not set to change. It would be unrealistic to assume that a significantly larger percentage of public money will end up with, and then be spent by, the EU. It will always be the case that most activities will remain at Member State level. Yet this requires coordination. That is why economic governance is so crucial.

R. C.: Does your appointment signal an increase in Germany's influence in the EU?

Klaus-Heiner Lehne: From an outsider's perspective, this may appear to be the case. This is honestly not how I see things. However ECA Members think as Europeans. I do not represent my government, but am an independent Member of this Court and have to act and think like a European. This was my approach in the European Parliament too. My appointment doesn't enhance Germany's direct influence.

R. C.: Will the administrative reform recently implemented at the ECA alter the collegial system, or the relationship between the ECA President and the other Members or between the Members?

Klaus-Heiner Lehne: The Chambers were created upon my predecessor's initiative. The system has proved its worth, but has also resulted in the Chambers operating very independently. This means that the overall interest of the ECA was not always the top priority when the work programme was drawn up. The reform that I have seen taking place here over the past two years is aimed precisely at reinforcing once again the ECA's overall interest.

The latest reform affecting the way in which the Chambers work, their responsibilities and how resources are used, is specifically designed to further reinforce the ECA's capacity to plan and devise strategy more centrally. The Chambers decide on the substance, but, under the new rules, it is primarily down to the College to decide which audits are carried out and by whom.

Reform is one thing, but culture is another. We now need to see that our culture also evolves as the reform is implemented. That process will surely take several years. As I see it, I have three key tasks over the next three years: firstly, to implement the reform while reshaping our internal culture; secondly, to reform our products, particularly the annual report, but also to have more landscape reviews and quick special audits; thirdly, to boost the ECA's external impact.

R. C.: Will Brexit alter our audit culture or the way we work at the ECA?

Klaus-Heiner Lehne: It is far too early to say. The British Government has not yet triggered Article 50. We are talking about a period that could probably lie beyond 2019.

In any case, as the smallest institution we will have a relatively small role to play in the proceedings. The Commission is preparing the negotiations, the European Council will issue the mandate for negotiations and the European Parliament must agree at the end.

An interinstitutional working group was set up long ago to deal with staffing matters. On the subject of English as a working language, all I can say is that it is very difficult to change an internal linguistic culture. That goes for us just as much as for the European Court of Justice, where cases are heard in French. English will therefore remain a main language.

R. C. What aspect of your current post will you miss most as President?

Klaus-Heiner Lehne: Strange as it may sound coming from someone from the Parliament who has never actually worked as an auditor, I will miss auditing, for the simple reason that I have learnt a lot during my two and a half years at the ECA. I have worked on things with which I had never before had any dealings. Whereas previously I was primarily legislating for the European internal market, I have had to work in a field in Chamber III — and have enjoyed doing so — that was previously a complete unknown for me: development aid.

To suddenly look at things from a global perspective, rather than solely from a national or European perspective, opened up an entirely different way of viewing the world's problems; things that are hotly debated in the media suddenly became banal. That was a very important experience in my life.

R. C.: "Global economy" is a buzzword. Is this worth pursuing?

Klaus-Heiner Lehne: In principle, I believe that, yes, it is worth seeking to eliminate boundaries to trade, since this ultimately leads to more jobs and a better economy. Of course this needs to happen in a balanced manner. I think that the two large economic blocks, namely North America and Europe, should, as far as possible, remember as they work together that today's decisions will continue to influence the world's standards in 50, 60 or 100 years' time. If the two large economic blocks, whose significance, if we look at global developments, is fading in terms of population size, fail to cooperate more closely, then there is a grave danger that we will no longer have a say in shaping these standards in the next generation or the generation after that.

Reflections on my experience at the European Court of Auditors

By Louis Galea, ECA Member (2010 – 2016)

Dr Louis Galea, ECA Member

My journey at the ECA started on 7 May 2010. I arrived with a lifetime of experiences gained over many years of working in politics and serving as Minister, and then Speaker, in Malta. After six years serving in the ECA, I leave with a much deeper insight of the EU and its internal functioning, filled with positive memories, enriched by relationships with many hardworking and professional people, with valuable knowledge gained and a strengthening of my identity as an EU citizen.

My early days at the ECA My first two years at the ECA were spent in Chamber IV, which at the time dealt with revenue, research and internal policies, and Institutions and bodies of the EU. I was responsible for the financial audit of the EU administrative expenditure which equates to around €10 billion (annually equivalent to around 6 % of the annual EU budget). Few errors are reported in this area indicating that in general EU institutions and bodies implement the budget in line with the rules. I was also responsible for a number of performance audits on EU institutions and bodies, including a follow-up report on the management of OLAF; the effectiveness of staff development in the Commission; the reliability and credibility of statistics produced by the Commission and Eurostat; budget savings from the centralisation of the Parliament's operations; the effectiveness of the External Borders Fund; grant management in agencies, as well as numerous opinions.

Developing the ECA's strategy: new challenges, new opportunities

In 2011 the ECA started developing the strategy for the period 2013-2017. Since the previous strategy (2009-2012) was set, significant changes had occurred in the EU landscape such as the shifts in institutional balance brought about by the Lisbon Treaty, the launch of the Europe 2020 strategy, as well as the new EU responses to the global financial and economic crisis particularly in the banking supervision, financial support to Member States in difficulty and fiscal and economic coordination. The ECA needed to position itself in this new scenario.

During this time, I had the opportunity to contribute to the strategy as part of the Strategy Reflection Group. Under the chairmanship of President Caldeira we started to analyse challenges and opportunities that the ECA was facing and how the it could respond to them.

The Reflection Group took into account feedback received from the Members in particular the exchanges made during the Members' Seminar in Talinn, the results of the staff consultation, the European Parliament and its Committees, the Council, as well as the feedback of the 2008 peer review and external evaluators. This was truly an open and constructive dialogue.

The conclusion was that the ECA, faced with changing realities and new developments, needed to respond to such changes and to adapt more proactively, building stronger strategic partnerships and organising itself in a more flexible and efficient manner.

This led to the development of a number of key actions which have already started to bear fruit. For instance, the thrust to deliver new products has resulted in two landscape reviews, one on EU accountability and audit gaps and one on EU financial management risks, both of which have been extremely well received by stakeholders. More landscape reviews are in the pipeline.

Similarly, new work programming procedures reflecting priorities agreed at ECA level enable focused responses and more coordinated direction of its work. In terms of strengthening the ECA's relation with partners, the assignment of a dedicated Member in charge of inter-institutional relations and the improved targeting of audiences at national and EU level through visits to Member States, thematic conferences and a new stakeholder management system are all measures intended to increase its visibility and relevance. In audit, the move towards a task-based organisation, the adoption of new roles and responsibilities, as well as the streamlining of audit and reporting processes enabled the ECA to increase its flexibility and efficiency.

Deanship and the establishment of the FEG project team

I was elected Dean of Chamber IV in March 2012 for a term of two years. My experience as Dean was very positive. With the Members and the Director we managed to strengthen and streamline the organisation of the Chamber. One of the key actions was to create a dedicated unit for performance audit to ensure that the production of special reports is not disrupted by work on the annual report chapters assigned to the Chamber.

In 2013 an important development was the establishment of the Financial and Economic Governance (FEG) project team. In response to the financial crisis the EU undertook a broad range of initiatives collectively aimed at detecting, preventing and correcting negative economic trends. These included: enhanced surveillance of Member States' fiscal and macroeconomic policies and structural reforms by the European Commission in the form of the European Semester; new instruments such as the European Stability Mechanism and the Balance of Payments to assist Member States in financial difficulty; setting up the European system for Financial Supervision with new entities such as the European Securities and Markets Authority, the European Banking Authority and the European Insurance and Occupational Pensions Authority responsible for micro-prudential financial supervision and assigned new macro-prudential oversight tasks such as the Single Supervisory Mechanism to the European Central Bank. These fell within the policy responsibilities of Chamber IV, which was quick to realise the potential risks that failure of different EU level entities to perform their new and extended roles could have on the EU and Member States. The Chamber recognised the need to build specialist audit capacity within ECA to focus on these risks.

The work of the Director of the Chamber and the Director of HR, Finance and General Services served to set up a dedicated team within Chamber IV and to start addressing the EU's response to the financial crisis. The way the team was brought together was a demonstration of pragmatic management: an internal call for expression of interest to ECA staff was made to fill up most of the team, an intensive specialized training programme with experts from outside was put in place and experts were contracted to support our work in this new areas.

In 2015 the ECA published its first reports on this domain. The FEG project team is an excellent example of the ability of this EU institution to adjust flexibly to evolving scenarios and the ability of our staff to take on new challenges and deliver high quality products.

The audit of Agencies and Joint Undertakings

During the last two years of my term, I was responsible for the annual financial and compliance audit of the agencies and joint undertakings of the EU. Presently there are around 50 such bodies, for which the ECA delivers an opinion on the reliability of their accounts and the legality and regularity of their underlying transactions. Notwithstanding that their budget is around € 4 billion (approx. 3% of 2014 EU Budget), agencies and joint undertakings play an increasingly important role in implementing EU policies and the EU Research Strategy, respectively. They also reinforce cooperation between the EU, national governments and industry and increase the visibility of the EU.

I was involved throughout the discussions concerning the arrangements related to the financial audit of these bodies and our approach to take the work done by third party auditors into consideration in its work and final audit opinions. With the assistance of our principal managers and heads of task, we cooperated with the appointed private audit firms, and have seen the first two years run relatively smoothly. On joint undertakings, the good work of principal managers and the heads of task has led to excellent results. These bodies will face similar transitions towards the use of external auditors as we have seen with the agencies.

In recent years the ECA has published four special reports on agencies including: SR 12/2016 on the Agencies' use of grants; SR 4/2016 on the European Institute for Technology; SR 22/2015 on the European Securities Market Authority; and SR 5/2014 on the European Banking Authority.

Time for consolidation

In 2015 under the chairmanship of the President I participated in the Working Group on the reform of Chamber's Responsibilities. The aim was mainly to complete the ECA's governance arrangements in the light of the changes brought about by the strategy and reorganisation. The proposals made by the working group and then taken on board by the ECA, include streamlining of processes to prioritise the ECA's work, allocating tasks to Chambers in a more flexible, balanced and efficient manner, ensuring that Chambers are well resourced to deliver the tasks assigned, and to support the ECA's overall relevance by enhancing our knowledge management processes to enable it to capture and assess the constantly changing environment within and outside the EU.

This proposal eventually also led to the establishment of a new Chamber V of which I became a member in June 2016. In part, this Chamber took over the responsibility of the former CEAD Chamber for the coordination of the ECA's Annual Report. Although my time in this Chamber will be short lived as I approach the end of my term, I can anticipate exciting times ahead for this Chamber too.

Conclusion

Six years at the ECA have gone by in no time and I look back with a gratified sense of satisfaction. I feel privileged to have worked with Vitor Caldeira as its President. He was an excellent President and an effective team builder. I enjoyed working with and learned a lot from my colleague Members, the directors, principal managers, heads of task and the many auditors who were involved in my work. But I could not have realized the positive results on my own. I was especially assisted by my Cabinet team, especially the head of office

Throughout my entire tenure, I have been engaged in a continuous debate on ways in which the ECA can improve the statement of assurance and the annual report – its core product as required by the Treaty itself. One of the key actions of the strategy requires the ECA to adapt the annual report to meet the needs of the discharge authorities – Parliament and Council – in a more cost-effective manner. I leave reassured that all my colleagues are aware of both the need to continue improving the communication of this report and its findings, and also of the need for such a report to remain an instrument which holds executive authorities to account, based on objective criteria and credible audit approaches which conform to the highest international standards for public audit authorities.

My parting shot is that the ECA is heading in the right direction, has embarked on a wholesome reform agenda that will bear fruit if implemented properly and if given the time to mature. I am sure that the ECA will continue to consolidate its efforts and deliver effectively its mission as the guardian of the financial interests of the citizens of the Union.

The ECA and the NAO: Exchanging knowledge and people

By Katharina Bryan, private office of Wynn Owen, and Rosmarie Carotti

On 19 July, John Thorpe, Executive Leader of the National Audit Office (NAO) and Simon Helps, a NAO director, visited the ECA hosted by Phil Wynn Owen, ECA Member.

Simon Helps, a NAO director; Phil Wynn Owen, ECA Member; John Thorpe, executive leader of the NAO

Exchanging ideas: Visit of John Thorpe and Simon Helps

John Thorpe explained how the NAO is responding to a challenging environment by continuously evolving in terms of organisation and output. His presentation followed on from the insight into the NAO's change process which **the Comptroller and Auditor General Sir Amyas Morse** discussed during his visit to the ECA in April 2015 (See ECA Journal No 5, May 2015).

Some 150 years after the office of Comptroller and Auditor General was established, the NAO's primary role continues to be the scrutiny of public spending to help Parliament hold government to account and to improve public services. Challenges in its environment, such as further reductions in public spending, further devolution and localism and changes in public services delivery models, have required the NAO continuously to adapt and innovate.

Three areas of innovation and current work were highlighted by John Thorpe.

1) Increasing the flexibility and relevance of value-for-money work.

Apart from "classic" value-for-money reports with full conclusions, the NAO uses different approaches depending on the circumstances, such as programme implementation stage:

a) **Landscape Reviews/Briefings** are "forward looking" publications used to identify areas of concern/risk and/or issue for debate and future audit work. They do not include value-for-money conclusions nor recommendations.

b) **Early stage/ Progress review type reports** are carried out at the early stage of programme implementation, and primarily looking at inputs. These types of reports can be used to establish a framework against which programmes can be judged in future value-for-money audits.

c) **Comparative reviews** look at how different departments manage similar programmes with the aim of assessing effectiveness.

d) **Cross-Government Reviews** focus on recurring issues found across government. Their purpose is to draw general lessons, make recommendations and can result in "best practice guidance for departments".

2) Increasing the use of investigations

Investigations are used to examine "what is happening on the ground". They can take the form of a **retrospective examination**, establishing the facts of a case with an average duration of 4-5 months, or larger **briefings on current issues**. Investigations cover only the establishing of key facts – they do not include any conclusions or recommendations. By developing such "non-evaluative investigation reports" the NAO seeks to produce reports quicker and at lower cost. The impetus for investigations can be external, e.g. individual MPs informing the NAO of suspected misuse of funds.

3) Work on EU finances

One example of a **briefing** addressed to the UK Parliament is the "**Financial Management of the EU budget in 2014: a briefing for the Committee of Public Accounts**" of February 2016. The Briefing was subsequently the subject at a hearing at the committee where, among others, Manfred Kraff, Deputy Director General, Directorate-General for Budget and Accounting Officer of the European Commission and Phil Wynn Owen, ECA Member, provided evidence.

The Public Account Committee's report, the NAO briefing and the transcript of the hearing can be found here: https://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/inquiries/parliament-2015/memorandum-financial-management-eu-15-16/

John Thorpe, Executive Leader of the NAO

During the discussion with the audience, the comparative review "**Error and Fraud in Welfare Programmes**" allowed the conference participants to understand better the concepts and their use by the ECA and NAO. The example of the review also highlighted the importance of better use of data since the NAO used a lot of "number-crunching" to understand key risks in the welfare programme. After the presentation, the NAO representatives met with ECA colleagues from various Chambers of the ECA.

Exchanging People

The presentation by John Thorpe was another fruitful event in the cooperation between the two Institutions; which this year has seen both this high-level visit and the start of a staff exchange programme. In the staff exchange programme between the NAO and the ECA staff spend a year working in each other's institutions. Valeria Rota at the ECA started work at the NAO in London in May 2016, and David Boothby started work at the ECA in September 2016. Both institutions have agreed to continue the programme in 2017.

Valeria Rota, auditor

David Boothby, auditor

44th EUROSAI Governing Board Meeting at the European Court of Auditors

By Daniel Tibor, assistant to the Liaison Officer

On 13-14 June 2016, the European Court of Auditors hosted this year's annual meeting of the EUROSAI Governing Board, under the Presidency of the supreme audit institution of the Netherlands.

Daniel Tibor,
assistant to the Liaison Officer

EUROSAI – The European Organisation of Supreme Audit Institutions

The European Organisation of Supreme Audit Institutions (EUROSAI) is the most junior regional group of the International Organisation of Supreme Audit Institutions (INTOSAI).[1] Since its establishment in 1990, with the European Court of Auditors (ECA) as one of the founding members, EUROSAI membership has grown significantly from initially 30 to currently 50 members. EUROSAI's organisational structure comprises three standing bodies, i.e. the Congress, the Governing Board (GB) and the Secretariat.

The Congress is EUROSAI's supreme decision-making body, which is composed of all Heads of member SAIs, and meets in ordinary session every three years. The Head of the SAI hosting the Congress is elected by the Congress for a three-year term as President and official external representative of EUROSAI.

In between the Congress sessions, the GB meets annually to oversee the implementation of Congress decisions, take the necessary decisions for the functioning of the organisation, and ensure compliance with the EUROSAI statutes. It consists of eight members: four full-fledged members (the Heads of the SAIs that hosted the last two ordinary sessions of the Congress, the Head of the SAI to hold the next regular session of the Congress, and the Secretary General of EUROSAI), and four members elected by the Congress for a period of six years[2] (two members renewable every three years). The Heads of SAIs who are members of the INTOSAI GB and are members of EUROSAI may be represented at EUROSAI GB meetings as observers. The President of EUROSAI also chairs the GB meetings.

The Secretariat has a role in both internal and external communication and budget issues. It provides support to the EUROSAI members concerning activities and procedures, hosts the website, publishes the EUROSAI Magazine, and disseminates EUROSAI outputs. The Secretariat is held permanently by the SAI of Spain, which also hosts EUROSAI's headquarters.

Since the adoption of the Strategic Plan 2011-2017 by the VIII EUROSAI Congress in Lisbon (2011), EUROSAI's organisational structure comprises four so-called Goal Teams, each mandated to implement one of EUROSAI's four strategic goals: Capacity Building, Professional Standards, Knowledge Sharing and Governance and Communication. EUROSAI has, moreover, set up various working groups, task forces and committees addressing specific areas. Currently, there are three working groups dealing with information technology, environmental audit and the audit of funds allocated to disaster and catastrophes, as well as one task force on audit and ethics. In 2011, it was also decided to establish a ***Monitoring Committee for setting up and operating the electronic data base on good practices on audit quality.***

44th EUROSAI Governing Board Meeting

The ECA hosted the 44th EUROSAI GB meeting at its premises in Luxembourg on 13-14 June 2016. The meeting was attended by high-ranking representatives of 18 SAIs. Currently, the GB is composed of the SAIs of The Netherlands (Presidency), Portugal, Spain, Turkey, Finland, Moldova, Belgium and the ECA. The SAIs of Austria (INTOSAI Secretariat), Norway (INTOSAI Development Initiative), Poland and the Russian

1 INTOSAI groups together the supreme audit institutions (SAIs) of 192 full members and five associated members, and it is listed as a support organization of the United Nations. Other regional groups within INTOSAI are OLACEFS, AFROSAI, ARABOSAI, ASOSAI, PASAI and CAROSAI.

2 The ECA became a member of the GB in 2011. Its mandate finishes with the Congress in 2017.

Federation (INTOSAI GB members) form the current group of observers. In addition to GB members and observers, further delegations were invited as guests representing the various EUROSAI goal teams and working groups.

Most of the discussions at this year's GB meeting aimed at preparing the Congress, which will take place next year in Turkey. Whereas the first session focused on reporting by the chairs of the goal teams and working groups, the second session was mainly dedicated to points of principle such as the future role of EUROSAI and relevant strategic issues. It dealt with the evaluation of EUROSAI, the role of the EUROSAI GB, the relation between EUROSAI and INTOSAI, and the Strategic Plan of EUROSAI for 2017-2023. The meeting fell into a crucial period of time for EUROSAI, with the first strategic plan drawing to an end, requiring not only a careful assessment of its goals and achievements but also an answer to the fundamental question of what kind of organisation EUROSAI wants to be in the future, and which goals it therefore needs to address.

Self-assessment and independent evaluation

The evaluation of EUROSAI is designed as a two-stage process including a self-assessment (phase I) and an independent external evaluation (phase II). Phase I started with a survey which aimed at identifying the strengths and weaknesses of the organisation and ways for improving its functioning. Goal Team 4 presented the preliminary findings of the survey to the GB, which would indicate an overall satisfaction with EUROSAI's governance framework, i.e. Congress, Presidency, GB, and Secretariat. The meeting participants then discussed the implications of the survey findings and the conclusions to be drawn from the exercise. The discussion concentrated on the implementation of the strategic goals and the corresponding structure of EUROSAI Goal Teams. There was a common understanding that EUROSAI should facilitate the exchange of information, promote and support ISSAI implementation, as well as stimulate audit co-operation.
Notwithstanding the mostly positive feedback from the self-assessment, GB members still saw room for improvement and provided guidance for the finalisation of the evaluation. They agreed to President Caldeira's suggestion of taking action to tackle the identified weaknesses as soon as the self-assessment is finalised. The findings and recommendations should then also feed into the process of drafting the strategic plan for 2017-2023. GB members proposed that the external evaluation by an independent evaluator might take the form of a midterm review of the implementation of the strategic plan for 2017-2023.

Strategic Plan 2017-2023

In order to prepare the strategic plan for 2017-2023, the self-assessment survey included questions concerning the mission, vision, values and strategic goals as well as the future of EUROSAI. Most respondents were satisfied with the appropriateness and relevance of the mission, vision and values of the organisation. Some suggested however to redraft them to even better fit the organisation. The debate mainly focused on whether to maintain or reformulate the current set of strategic goals, and on how to achieve a more flexible organisation with lighter procedures. President Caldeira highlighted the need for enhanced ownership, leadership and inclusiveness, which must be based on common values, interests, and a clear vision, also providing for the justification of EUROSAI as an international organisation.

The GB members supported the ECA's proposal to follow a three-step process for designing the new strategy:

1. identification of goals which are relevant and useful for the EUROSAI members;
2. definition of activities and initiatives to achieve these goals effectively; and
3. setting out how EUROSAI should be organised to best implement its strategic plan.

Goal Team 4 was tasked to present a draft proposal for the Strategic Plan 2017-2023 at an extraordinary meeting of the EUROSAI GB to be held in Moldova in spring 2017.

EUROSAI Governing Board

While discussing the role of the EUROSAI GB and its relations with the EUROSAI community, participants highlighted the importance of having transparent, open and democratic processes for EUROSAI in general, and the GB in particular. GB members welcomed the expectations expressed and advocated a new understanding of the GB's role, notably to show more leadership, improve effectiveness by taking decisions in a timely and pro-active way (agility), and focus more on the needs and expectations of EUROSAI members. The GB committed itself to continue building and promoting a results-based organisation (including appropriate and flexible structures) which should respond to the needs of its members as well as the changes in the global context in which they operate.

EUROSAI representation at INTOSAI level

The GB of INTOSAI is composed of 18 members. It meets annually, as is the case with the EUROSAI GB. To ensure a balanced representation of all member countries, each regional organisation and the main types of public auditing systems are represented. EUROSAI is currently represented by the SAIs of the Russian Federation and Poland.
Since the SAI of the Russian Federation is the designated host of the 23rd INCOSAI (2019), and thus changing its status from an elected EUROSAI representative to a fully-fledged member, it needs to be replaced by another EUROSAI member for the remaining period of its term (2016 to 2019). Six SAIs presented their candidacy. In a secret ballot, the EUROSAI GB voted for the SAI of Portugal to replace the SAI of the Russian Federation.

44th EUROSAI Governing Board Meeting

In Memoriam of Sir David Bostock, former ECA Member

By former staff of his private office

Sir David Bostock (1948-2016), ECA Member from 1 January 2002 to 31 December 2013

It was with great sadness that the European Court of Auditors (ECA) learned of the death of Sir David Bostock on Saturday 3rd September 2016. Born on 11 April 1948, Sir David served as the UK Member of the ECA from 1 January 2002 to 31 December 2013.

Before joining the ECA, David, a graduate of Balliol College at Oxford University, had an illustrious 30 year career as a UK civil servant and diplomat, including experience at the UK Treasury, Cabinet Office and the permanent representation of the UK to the EU. He was one of the UK's most respected and influential thinkers and policy-makers on the EU.

As a Member of the ECA, David's unique experience and extensive knowledge of the EU enriched the ECA's work across all areas. He was dedicated to the goal of improving the way the EU operates, and, through his profound commitment to high standards of public management, and his deep engagement in and enthusiasm for all aspects of his professional life, he inspired a generation of ECA Members and staff alike. In his distinctive way, David helped the ECA produce many reports and opinions of substance that contributed to real improvements to EU policies and spending programmes. And as the member and Dean responsible for audit development, he instituted changes that led to the enduring improvement in the quality of the ECA's reporting.

As a colleague and friend to the ECA's Members and staff, David was a distinctive voice and colourful presence. His passionate self-expression and mastery of the language of Shakespeare was greatly admired, and all enjoyed David's penchant for making historical allusions and his very British sense of humour.

David is fondly remembered as someone who wholeheartedly enjoyed the social life of the ECA in Luxembourg. He was an active member of the ECA choir, and regularly played the part of Santa Claus at the children's Christmas party – he would even make sure he knew how to wish every child a happy Christmas in their own language. And in 2008, wearing the ECA's team shirt, he also completed the full marathon in Luxembourg, at the age of 60.

In his retirement, alongside devoting himself to his family, David returned to university, taking a Masters degree in South East Asian Studies at the School of Oriental and African Studies (SOAS) at the University of London. He was even part of the SOAS team on the popular BBC TV quiz show University Challenge.

David will be greatly missed.

Special report
N°13/2016

EU assistance for strengthening the public administration in Moldova

Moldova receives the highest amount of EU aid per inhabitant of all of the EU's eastern neighbours. We assessed whether EU aid had contributed effectively to improving the country's public administration.
We concluded that budget support had had a limited effect. The Commission could have responded more quickly when risks materialised, and programmes were not sufficiently aligned to Moldovan strategies. The Commission did not make full use of its ability to set conditions for disbursement, and additional incentive-based funds were not fully justified.
The projects we assessed were relevant, and had delivered the expected outputs. However, they were not always well coordinated with budget support programmes, and results were not always sustainable.

This report was published on1 September 2016 and is available on our website www.eca.europa.eu.

Special Report
N°20/2016

Strengthening administrative capacity in Montenegro: progress but better results needed in many key areas

In this report the Court examines whether the Commission's support to Montenegro has contributed effectively towards building up the administrative capacity of the country to prepare it for membership of the EU. The Court concludes that despite the slow progress noted in several key areas, EU pre-accession assistance helped to strengthen administrative capacity during the period audited (2007-2013). While EU financial and non-financial support addressed important capacity-building needs, the Court notes cases where weak commitment to reform by the national authorities meant outputs were not used and planned impacts were not achieved. The Court recommends ways in which the Commission could focus on improving results

This report was published on 6 September 2016 and is available on our website www.eca.europa.eu.

Special Report
N°21/2016

EU pre-accession assistance for strengthening administrative capacity in the Western Balkans: A meta-audit

The EU Western Balkan enlargement policy has dealt with six European countries which have historically been affected by serious ethnic, political and economic conflicts and aspire to join the EU.
The Court assessed whether the Commission's management of the IPA in the Western Balkans in the key areas of rule of law and public administration was effective and whether it actually did strengthen administrative capacity in the region. In addition, the Court examined the achievements of the EU-Western Balkan political dialogue in strengthening administrative capacity.

This report was published on 13 September 2016 and is available on our website www.eca.europa.eu.

Special Report
N°22/2016

EU nuclear decommissioning assistance programmes in Lithuania, Bulgaria and Slovakia: some progress made since 2011, but critical challenges ahead

The decommissioning of eight Soviet-designed nuclear reactors in Lithuania, Bulgaria and Slovakia was a condition for the countries' EU accession. We found that the EU funding programmes set up to assist with meeting this requirement have not created the right incentives for timely and cost-effective decommissioning. While some progress has been made, key infrastructure projects have experienced delays, and the critical challenges involved in working in the controlled areas still lie ahead. By 2020, EU support should have reached € 3.8 billion. The estimated total cost of decommissioning will be at least € 5.7 billion. If the cost of final disposal of high level waste is included, this total could double.

This report was published on 20 September 2016 and is available on our website www.eca.europa.eu.

Special report
N°23/2016

Maritime transport in the EU: in troubled waters - much ineffective and unsustainable investment

Seaports are a key part of the EU's trade network. Between 2000 and 2013, the EU invested € 6.8 billion in ports. We found that the port development strategies put in place by the Member States and the Commission did not provide enough information to allow effective capacity planning to be carried out. This had led to EU co-financed investments in port infrastructure being ineffective and unsustainable, with a high risk of around € 400 million invested being wasted. Road and rail connections to port hinterlands were often missing or inadequate, meaning that further public funding will be needed to make the initial port investments work well. We also found that the Commission had not taken the necessary action in the area of state aid and customs procedures to allow ports to compete on a level playing field.

This report was published on 23 September 2016 and is available on our website www.eca.europa.eu.

EU COHESION POLICY CONFERENCE

“Past Evidence, Current Experience and Future Perspectives”

Bratislava, 15 and 16 September 2016

On 15 and 16 September 2016, the Office of the Deputy Prime Minister of the Slovak Republic for Investment and Informatisation Peter Pellegrini organised this international conference as the top informal event in the field of Cohesion policy under the Slovak Presidency of the Council of the EU. The aim of the conference was to reflect on the reform of the EU Cohesion policy under the 2014 - 2020 programme period, assess the contribution of its new elements to the improvement of the policy, and identify its future perspectives. After the opening keynote speeches by, among others, Peter Pellegrini and by Corina Crețu, Commissioner for Regional Policy, the first day of the conference consisted of three successive panel discussions: Panel discussion 1: Performance and result orientation of the European Structural and Investment Funds (ESIF), Panel discussion 2: Links between Cohesion policy and European economic governance, and Panel discussion 3: Further simplification of Cohesion policy and the future perspectives. Ladislav Balko, Member of ECA, took part in Panel 1 and addressed the participants on performance and the result orientation of the ESIF based on his experience as Member of Chamber II (We publish his full contribution which in the conference had been shortened due to time constraints). Martin Weber, Director of Chamber II, took part in Panel 3 and presented his views and ideas on the simplification of the Cohesion policy. The second day of the conference was divided into three parallel workshops corresponding to the topics of the previous day’s panels.

Performance and result orientation of the European Structural and Investment Funds (ESIF)

By Ladislav Balko, ECA Member

Ladislav Balko, ECA Member

The ECA

The ECA is the EU’s independent external auditor, checking that EU funds are correctly accounted for, raised and spent in accordance with the rules and achieve value for money in accordance with the principles of economy, effectiveness and efficiency, or – taken together – sound financial management. In view of our increased focus on performance, since the financial year 2010, our Annual Report includes besides information on regularity and compliance also a chapter on performance. Also expenditure which is legal and regular may bring little or no value due to its failure to achieve the intended objectives. Objectives must be defined in a way that allows measuring their achievement, using SMART criteria, i.e. Specific, Measurable, Achievable, Relevant and Timed. ‘Achievability’ needs to strike the right balance between ambition and realism, i.e. the criteria need to be sufficiently challenging.

Performance in the ECA’s work

In 2014 and 2015 – the first two years of the Multiannual Financial Framework 2014-2020 – the vast majority of the EU Cohesion spending were interim payments to Operational Programmes of the 2007-2013 programme period, whose eligibility period ended on 31 December 2015. Therefore, despite the greater focus on results and performance under the Cohesion policy regulations for the current 2014-2020 programme period, which is also acknowledged in the background paper of the Slovak Presidency for this conference, the ECA is not yet in possession of information as to whether the various modifications, as being actually implemented, indeed help reduce error rates or improve performance. Nevertheless, I will share with you some of the ECA’s findings concerning performance which are of relevance also for the EU Cohesion spending.

Already in the performance chapter of the 2012 Annual Report, the ECA concluded that for many areas the EU legislative framework was complex and there was lack of focus on performance. We also noted that the legislative proposals for the new 2014-2020 programme period risked remaining fundamentally input-based (and thus expenditure oriented) and therefore focused on compliance rather than performance. In the 2013 Annual Report, the ECA pointed to the problem that, for Member States, the 'use it or lose it' syndrome means that spending the available EU funds can become of overriding importance when they select projects for funding. In the 2014 Annual Report (paragraph 3.59), we found that there was a weak focus on results in the five partnership agreements we examined: while all five did identify results, in three of them over half of the expected results were vague. Where results were identified, they were usually expressed in qualitative terms, without stating the magnitude of change.

In the performance chapters of both the 2013 and 2014 Annual Reports we dealt extensively also with the mandatory performance reserve which is the main incentive for Member States to focus on performance in 2014-2020. Where performance is deemed satisfactory, the Commission will release the performance reserve. Where it is not, the Member States will propose its reallocation to other priorities. Where there is evidence that there has been a 'serious failure' to meet milestones, in certain circumstances the Commission may suspend payment of the reserve. However, the ECA points to the risks or design flaws of the performance reserve: if programme priorities fail to reach the relevant milestones, the funding represented by the reserve is not lost to the Member State but can be reallocated to other priorities that have reached their milestones, which weakens the incentive effect. Moreover, the financial sanctions open to the Commission — suspension of payments or financial corrections — cannot be based on result indicators, which weakens the focus on results. The ECA's Special Reports have generally not revealed significant problems with outputs (i.e. the deliverables of a programme). Difficulties occur at the level of results (i.e. the immediate effects of a programme on direct addressees) and impacts (long-term changes in society that are, at least partly, attributable to the EU's action). Furthermore, the Commission's ability to impose financial corrections where targets have not been achieved is limited by a number of conditions and exceptions, such as proportionality, levels of absorption, external factors, socioeconomic factors, environmental factors, etc. The impact of the introduction of the performance reserve is therefore likely to be marginal as there are still no real financial incentives or sanctions in the 2014-2020 framework relating to the results achieved with the EU funding, and despite the introduction of the reserve there is a risk of a reversion to the focus from performance to absorption. This would mean a return to the 2007-2013 period mentality, for which the ECA has found that in the selection of projects the Member States had focused first on the need to absorb the EU money available, second on the need to comply with the rules, and only thirdly and to a limited extent on projects' expected performance. What we say is that compliance and performance should be given equal weight throughout the project cycle.

EU added value

Further related concepts important in terms of securing the best performance from the EU funds are 'EU added value' and 'deadweight'. In our Briefing paper: Mid-term review of the MFF 2014-2020 we stated that making funds available does not add per se EU added value, and that the latter entails three main conditions: need of public intervention, cost-effectiveness of budgetary measures compared to non-budgetary measures and demonstration that EU level spending can secure better results than national budgets alone. The ECA's audits found that genuine EU added value was often difficult to identify, particularly in the context of shared management where most of the budget is spent. The risk is that EU funding is used as a substitute for national funds, thereby releasing national resources for use elsewhere. A linked concept, negatively affecting EU added value, is deadweight, which refers to the extent to which a beneficiary would have undertaken the project even in the absence of the EU support. Our audits noted projects which were authorised, or even completed, before the EU funding had been approved; this is a strong indication of deadweight. We found examples of deadweight in our Special Reports on the SME Guarantee Facility, on the 7th Framework Programme for Research, and on the Marco Polo programme to shift freight traffic off the road. Although there was evidence that the EU support benefited projects, the latter audit found serious indications of deadweight: for example, 13 of the 16 beneficiaries audited confirmed that they would have started and run the project also without the EU subsidy. In another Special Report, on Cohesion policy funds support to renewable energy generation, we found that the Cohesion policy funds for renewable energy projects had a limited EU added value and there had been a risk of public funding replacement in some Member States which simply used the EU funds to complement their national grants, as well as a risk of deadweight.

Needs assessment and proper project selection

Further relevant issues are needs assessment and proper project selection. We reported poor project selection in our Special Report on EU-funded airport infrastructure. We found that there was a need for such investments only for around half of the projects we audited. Around a third of the airports audited was not profitable and ran the risk of being closed without continuous public support. Additionally, our audit on Seaport infrastructures found several completely empty ports in 2011, as well as ports which were not connected to their hinterlands, highlighting that there was no need for some of the projects funded and an urge to spend money so as not to lose it.

Finally, in a new product – the Landscape review on the risks to the financial management of the EU budget from November 2014, we stated that lack of information on what had actually been achieved by funding can be one of the reasons behind poor value for money.

Pilot assessments of performance

Next to the horizontal performance chapter, our Annual Report 2014 for the first time contained performance related information also in two vertical spending chapters, namely Chapter 6 on "Economic, social and territorial cohesion" and Chapter 7 on "Natural Resources", in the form of a pilot exercise assessing performance of projects completed by year end. In Chapter 6, we assessed whether and to what extent the objectives of the ERDF/CF and ESF projects specified in the project application, grant agreement, contract and/or decision for co-financing were in line with those set out in the Operational Programmes; and whether projects had achieved those objectives. Our analysis focused on project outputs and, where possible, we also assessed the extent to which longer-term results were achieved. We found that almost half of the projects reached (or even exceeded) all objectives specified. For another 30 % of the projects one or several performance indicators specified for the project did not attain the intended target value. There were also some projects where the time limit for attaining the objectives had not yet lapsed for all of the objectives by the time of the audit, where the achievement of objectives could not be assessed since no relevant data was provided or where the objectives were not in line with those specified for the OP and the relevant priority axis. In 2 % of the projects, none of the project objectives was attained. These projects do not add value because the investments are either not used or cannot be used, and unless rectified, will represent a waste of EU funds. Furthermore, our pilot review has shown that performance-based funding arrangements are an exception rather than the rule: in most cases, failure to achieve project objectives agreed in grant agreements had no impact on the level of EU funding received. In Chapter 7 on "Natural resources", we also tested whether there was a focus on job creation in Rural Development projects. In a majority of projects where it would have been possible to include job creation as eligibility or selection condition, such a condition had not been included, and we found no case where jobs for young people were to be created.

We repeated this performance review in these two chapters also in the 2015 Annual Report which will be published soon – on 13 October. Our analysis was broader than in 2014 because we did not focus only on outputs of projects but also on whether indicators have been set at project level for results with a view to measuring their contribution to the objective of the respective OPs. Given that for the current 2014-2020 programme period there is no legal requirement in the Common Provisions Regulation for Member States to define result indicators at project level, the possibility and opportunity for establishing such a legal requirement could be one of the options to explore when designing the post-2020 framework.

I would also like to draw your attention to an interesting article by Luc T'Joen, ECA senior administrator, in the September issue of the ECA's Journal, available on our website, which outlines further ways of possible improvements of the value for money implemented through the EU budget. One of them is the suggestion for an increased use of repayable instruments (e.g. loans and guarantees), with fewer grants which are often perceived by the beneficiaries as 'free money'. Furthermore, financial and compliance audits at Member State level could also collect more performance information from the management systems and from projects, and could include a focus on assessing the impact of irregularities on performance rather than just reporting irregularities. The article concludes that as long as EU budget disbursements remain largely disconnected from results and no active efforts are made to implement real incentives for effective spending and sanctions based on negative performance (such as empty and unused infrastructures), positive results will remain just a 'noble aim' of the EU budget.

In connection with the just mentioned possible increased use of financial instruments, useful lessons can be drawn also from our recent Special Report on Implementing the EU budget through financial instruments in the 2007-2013 programme period, in which we, among other things, acknowledge improvements made for the 2014-2020 period for example as regards making mandatory the performance-related management fees and detailed ex-ante needs assessments.

Conclusion

I would conclude that, in order to ensure achievement of real benefits of EU funding for citizens, we must further enhance the performance focus and culture at all levels of management. This should start with good quality needs assessment, defining SMART objectives for achieving results down to project level, continue through reliable measurement, reporting, evaluation and spreading best practices, and end with a real threat of effective loss of EU funding in case of failure to achieve performance objectives.

Further simplification of Cohesion policy and the future perspectives

By Martin Weber, ECA Director

Martin Weber, ECA Director

Simplification efforts in the past

Simplification efforts in the past, both for the 2007-2013 and 2014-2020 periods; are largely perceived to have been a failure: most practitioners consider the current programmes to be more difficult and costly to implement than in the past.

Why is this so? And what do we need to do to prevent this from happening again?

First, I believe that part of the problem may be that we do not always understand the same thing when talking about simplification.

- What exactly do we want to achieve? Lower administrative costs? Easier access for participants? Fewer errors?
- Which part of the policy cycle needs to be simplified? Programming, implementation, monitoring/evaluation, financial control/audit?
- Simplification for whom? Participants, national administrations, the Commission?

Lack of clarity and political intentions of the legislators

Lack of clarity about the ultimate intention of simplification efforts may well be a reason why they so often fail: while individual proposals for simplification can seem to be very promising, when taken together, conflicting proposals on how to change the regulations could well result in additional complexity and new problems.

Moreover the political intentions of the legislators (i.e. the European Parliament and the Council) and the Commission have led to changes in the legal framework which have added to the complexity of implementing cohesion policy.

One example of this is programming and monitoring in our audit work. For example, in our latest special reports on education and youth employment, we have been able to see that the 2014-20 programmes are significantly better aligned with EU policy objectives (such as Europe 2020) than previously. Moreover, the monitoring obligations have been reinforced, not least with a view to being in a better position to demonstrate the added-value of cohesion spending to an increasingly sceptical public in certain Member States. It goes without saying, however, that such changes are clearly not a simplification; they impose a considerable administrative burden both on the Member States and the Commission.

Eligibility conditions and the issue of ‘gold plating’

I would like to focus on some other aspects which we, as the European Court of Auditors, are often confronted with when assessing whether programmes are implemented according to the regulations. These aspects include eligibility conditions and the issue of ‘gold plating’.

Here, it should be recalled that simplification at EU level does not necessarily imply simplification for participants on the ground. Eligibility conditions are set at national level and in many cases, difficulties in implementing the ESI funds stem from provisions in these national rules. These provisions are often referred to as ‘gold plating’. However, in some cases there is a good reason for setting out specific conditions in the national eligibility rules: they address specific risks that exist in a regional context and aim at avoiding problems that ultimately could result in net financial corrections for the Member State. So in that sense, specific conditions that deviate from those in other regions could also be an attempt to protect the national or regional budget from such a risk. This is not what I would consider to be 'gold plating'.

In my view the issue of 'gold plating' of eligibility rules should be seen from another angle: we have noted in our audits that specific conditions and rules are sometimes found only in EU programmes, but not in similar national programmes.

Setting out the main eligibility conditions in national rules, introduced in the 2007-2013 period, was however meant to be a simplification for participants because they would be familiar with these rules and would know how to apply them. Obviously, the intention was not to create a separate set of (more stringent) national rules for EU-funded programmes. This type of 'gold plating' should be reconsidered because it has countered the intentions of the legislators to simplify the rules and creates a reputational risk for EU funds.

Public procurement and state aid

Finally, there is public procurement and state aid. Both are EU-wide policies which have a considerable impact on cohesion spending, and both are often portrayed as an impediment to simplification:

- Procurement rules are national law (since the EU Directives only set minimum standards), and both public authorities and participants are obliged to comply with these rules. So again, if there is any need for simplification, this applies across the board. In 2014, new EU Directives were adopted by the EP and the Council with the aim of producing simpler and more flexible rules, and they will need to be transposed into national law by 2016, and as regards e-procurement, by 2018. In our forthcoming annual report, we observe that the transposition in 21 of the 28 Member States is already delayed. Moreover, we considered in our recent special report on this subject that some of the well-intentioned changes are, however, likely to result in new and additional problems, for example in relation to consideration of social and environmental aspects during tendering.

- In relation to state aid rules, the picture is somewhat brighter: the 2014 reform of the General Block Exemption Rule (GBER) is likely to result in a significant simplification. On the other hand, national authorities now have greater responsibility for the approval of aid schemes. We also noted in our forthcoming special report that the regional aid guidelines are in some instances still significantly stricter than the GBER rules.

Simpler rules also prevent errors from happening. So far, our audits since 2009 have shown that the level of error for the 2007-2013 programming period is considerably lower than for the 2000-2006 programming period. However, at least in my view, this can be attributed to more (and more effective) checks and controls by national administrations and the Commission rather than to simplification of rules.

Several attempts at simplification have been made in previous years, but these efforts generally have only had a limited impact on the regularity of transactions. The main exception has been the introduction of simplified cost options, which have been used in particular for the ESF. At the same time, increased levels of control have caused a significant administrative burden on national administrations and beneficiaries. Through reinforcing first level checks and audits, we have become better at detecting and correcting errors, but not necessarily at making fewer errors in the first place.

Simplification through 'benchmarking' and alignment of national eligibility rules?

We have recommended to the Commission that it make use of the experience acquired in the 2007-13 period and carry out an analysis of the 2014-2020 national eligibility rules. This analysis should provide guidance to Member States on how to simplify and avoid unnecessarily complex and/or burdensome rules that do not add value with respect to the results to be achieved by the policy, in particular when they result in significant and/or recurring errors.

In our view, this kind of 'benchmarking' analysis and learning from others is currently not sufficiently used.

- **Simplification through different audit arrangements?**

  Simplification at EU and national level can help to address a significant proportion of errors that can be attributed to misunderstanding or misapplying the often complex rules and regulations that govern cohesion policy. But we need to accept that some errors will occur, to be corrected only after detection. There are no spending programmes with 'zero errors'.

  For many years the ECA has supported the idea that one level of control can build and rely (subject to some limited testing and re-performance) on the previous level. This concept of 'single audit' requires a common set of rules for all levels. In cohesion, the comprehensive system of checks set out in the regulations has helped to bring down the level of errors in the past. We should therefore be very careful not to undo a system that has demonstrated to work well.

  Currently, one of the elements of this system is that the Commission and the national audit authorities use a 2% materiality threshold to assess the regularity of spending. An extrapolated error rate of more than 2% leads to a qualified or adverse opinion.

  In our 2004 opinion on 'single audit', we had already indicated that the 2% level is not necessarily the right benchmark for judging the Commission's management of risk in some areas of the budget. We therefore called for rates of 'tolerable risk of error' to be proposed by the Commission and agreed upon at the political level.
  Materiality levels are also important for simplification, since in statistical sampling models a higher materiality level results in a smaller number of operations to be audited. Therefore, if a higher materiality threshold were to be set out in the regulations, the audit burden for national authorities and participants would be significantly reduced.

We, as the external auditor of the EU, could then also consider applying this higher materiality level provided it reflects the political intention of the budgetary authorities to accept a higher inherent risk to the regularity of spending in cohesion policy.

Performance audit of large infrastructure investment

By Luc T'Joen, senior administrator in Chamber II

This article focuses on transport investments, using some of the lessons learned from recent ECA performance audits in the transport field. The main lessons and principles can however be transposed to any other large infrastructure investment supported by EU co-funding.

Introduction

Transport infrastructure investment is a cornerstone of more general economic strategies primarily to promote economic growth and create temporary and permanent employment. Non-refundable EU support for such investments is co-financed via two funding streams:

- Directly managed (TEN-T and CEF[1]) expenditure via grants: the European Commission is directly responsible for the selection and management of the projects via its Innovation and Networks Executive Agency (INEA);

- "Shared management" expenditure via Cohesion Fund (CF) and European Regional Development Fund (ERDF) project funding (the cohesion policy area). In this case, the Commission transmits the amounts agreed upon through Operational Programmes to the Member States, whose authorities are responsible for all the expenditure management steps (e.g. selection, monitoring and payment).

Cohesion policy funding is usually provided to bridge the economic gap (the difference in degree of economic development) between the various Member States, while the level of EU support is calculated on the basis of the investment funding gap, determined by using Cost-Benefit Analysis (CBA) techniques.

In addition, the European Investment Bank (EIB) is an important player, as the Bank also provides significant amounts of investment support to large transport infrastructures through a number of different instruments, such as loans (refundable instruments), guarantees, microfinance and equity investments. Recently, the EIB has been involved with the Commission in the set-up of a new fund (the European Fund for Strategic Investments, EFSI) and innovative instruments. More information on their products and services can be obtained via their website.

Transport investments are believed to contribute to economic convergence and are a widespread tool to combat the effects of economic crises ("counter-cyclical investments"). Politically, transport infrastructure is desirable because the physical results are very visible to the citizens (high electoral power). From a management point of view, such projects are relatively easy to manage because large amounts of funding are spent quite quickly. From an auditor's point of view, however, it is not always easy to find a clear link between the EU element of the public investment in the transport infrastructure and its consequences, in terms of economic performance at project level or at the higher macro-economic level.

This article therefore tries to clarify the main issues at stake by:

- identifying the main risks which should be assessed when designing a performance audit;

- exploring ways of developing audit methodologies;

- reporting on key issues such as investment sustainability, deadweight and EU added value, using the experience of recent ECA audits;

- establishing the connection between the investments' inputs versus outputs, results and impact.

Finally, this article also highlights the importance of reaching tangible results which are worth reporting to the stakeholders in the form of the European Commission, Parliament and Council, and the general public, and provides some personal proposals for ways of influencing the quality of EU spending through increased knowledge of performance auditing.

1 TEN-T = Trans-European Networks for Transport; CEF = Connecting Europe Facility.

Main risks usually noted when designing performance audits of transport

The first group of items which transport infrastructure audits identify as causing problems for the performance of the investment are as follows:

(i) Weak long-term strategic planning of transport infrastructure, leaving room for less essential investments to take priority over other more needed ones, sometimes caused by "political" influences on priorities and the particular choices made;

(ii) Limited capacity building within the entities responsible for the management of expenditure, although managing it involves a very large number of diverse operations and activities, with varying forms of assistance (from "simple" grants to "innovative sophisticated financial engineering" instruments);

(iii) Ineffective co-ordination between the Commission's internal departments, between the Commission and the Member State Ministries, and between the national and regional authorities, combined with limited project monitoring and limited programme supervision;

(iv) Very general, and sometimes loosely defined, cohesion policy objectives formulated within an unnecessarily complex regulatory framework, where various authorities with different levels of competence interact with each other to apply both EU and national rules, the latter for additional requirements;

(v) Low, or no, focus on results, impacts and outcomes[2] at Commission, national and regional level;

(vi) A management largely focused on the absorption of funds made available earlier.

These regularly repeated stumbling blocks, highlighted by on-the-spot audits of EU co-funded transport infrastructure investments, may be partially explained by:

- the complex policy environment of shared management involving many entities with different roles and responsibilities;
- the need to spend money ("use it or lose it") focusing on legal and financial audit matters;
- the absence of clear guidelines;
- inadequate training and capacity building; and
- low management skills or lack of local management and monitoring resources.

These shortcomings mainly hamper the potential effectiveness of the EU funding amounts invested, but they can also have an impact on efficiency and economy[3].

In order to decide what to audit each of the three "e-words" above must be assessed carefully and on a case-by-case basis, by analysing the risks in a preliminary in-depth study: it is important to get it right from the beginning as there will be no second chance! In addition, the design of the audit proposal should ensure that the audit evidence to be provided is particularly robust and convincing in order to, wherever possible, clearly link the EU-funded investment with the final results and impact.

Therefore, when starting a preliminary study to assess the usefulness and feasibility of a performance audit, particularly in a new audit field, one should ***first analyse the overall picture*** (who is responsible for what?), assess any issues arising from this, and collect evidence on the performance of the management of the spending framework.

Possible indicators which could be used in this assessment are:

- Number of entities involved in the set-up of the

2 Definitions (from the Court's Performance Audit Manual):
- ***Result***: the immediate changes that arise for direct addressees at the end of their participation in an intervention (e.g. improved accessibility to an area due to the construction of a road);
- ***Impact***: the longer term socio-economic consequences that can be observed after a certain period after the completion of an intervention, which may affect either direct addressees of the intervention or indirect addressees falling outside the boundary of the intervention, who may be winners or losers;
- ***Outcome***: the change that arises from the implementation of an intervention and which normally relates to the objectives of this intervention. Outcomes include results and impacts. Outcomes may be expected or unexpected, positive or negative (e.g. a

3 ***Economy:*** requiring appropriate resources to be available at the best price, ***Efficiency:*** requiring the best relationship between resources employed and results, ***Effectiveness***: achieving the intended results compared to the objectives set initially to justify expenditure.

spending framework, their responsibilities, and their roles looking basically at whether there is a long-term, overall, well applied and regularly revised strategy, or not, who does what; who coordinates with whom, etc.;

- Amounts, degree (% of overall) and trend of spending of the EU funding over time for the particular field;

- Quality of the indicators for that spending trend with respect to the results obtained (if any), and regular revision of the indicators;

- Comparison with national spending trends on similar infrastructures: same trend, or not? If not, why not?

- Quality, regularity and transparency of both the Commission's and the Member States' monitoring, supervision and reporting of the particular framework;

- Number of entities involved in the decision-making process (Commission, Member States, regional and local levels), and how well they co-ordinated before and during the process (e.g. number of permits and authorisations needed to start building, delivered by whom, in what order, and under what conditions);

- Time it takes on average, and over the years, to come to a spending decision (basically measuring bureaucracy);

- Number of officials involved in the project/ programme implementation, and their background, competences and capacity assessed through the general administrative, IT and professional training provided (to be compared to other regional/national bodies doing exactly the same type of work);

- Number of incidents/reports indicating problematic issues, particularly with regard to results obtained and their actual handling. For example, the total absence of any such reports is a hint that projects are implemented to spend money and nothing else!

- ...

This is not an exhaustive list. Nor is this exercise always necessary. It will depend on whether you already know the area well before you start the audit task, and if you have the time to do this or not. However, it can prove important because from this more global view, one can understand the exact circumstances of the spending, and this could deliver a first set of general risks with respect to the overall spending framework environment.

A **good example** of the importance of having a long-term strategic development plan in place for the construction of infrastructures, before spending EU-money, is provided in the special report on seaport infrastructures[4]. Because of the general absence of a long-term strategic port development plan (neither the Commission, nor any of the five Member States visited had such a plan in place at the time of the audit, in 2010):

- several port investments were not delivering the expected results: only 18 % of 27 randomly-selected projects, worth in total 726 million euro of EU-money (total cost audited 1,7 billion euro), were considered effective,

- half of the port investments co-funded needed further funding to make them work (to finance necessary connections to the network, complete missing links), and public money to complete the works in a future phase is scarce because of the crisis and sovereign debt problems,

- three ports were found to be completely empty (there was no sound business case and no project ownership), several were heavily delayed and many were just starting a very limited number of operations.

The Eu co-funded this quay in the port Campamento in Spain with € 16,6 million. A small part of the container terminal built is currently used to do ship repairs, and the rest is lying idle since 2004

4 See Special report No 4/2012: "Using Structural and Cohesion Funds to co finance transport infrastructures in seaports an effective investment?"

Further key issues to tackle when designing performance audits in transport

A second "bloc" of major factors leading to a risk of inffective spending is related to:

(i) Project sustainability,

(ii) Deadweight, and

(iii) EU added value.

Each of these notions will be explained in further detail below with links as how to assess them, and when.

Project sustainability

Sustainability is a key issue which needs to be tackled up front by the beneficiary. Sustainability can be defined as "***the ability of a project to maintain its operations, services and benefits during its projected life time, i.e. for a long period after project completion***".

Legally speaking, the notion of 'durability' (considered equivalent to the concept of sustainability, in the sense of producing long-lasting results), has been a legal requirement for cohesion policy since 2000[5] **since** Regulation No 1260/1999 (Article 30.4) for the programme period **2000-2006** developed the durability requirement by introducing a cumulative set of conditions constituting an infringement and also set a five-year time limit for maintaining an investment. This notion was reinforced over time:

for the **2007-2013** period, the general provisions regulation6 moved the starting point for the time limit from the date of the decision on funding to the date of completion of the operation, which substantially lengthened the required period (a reduced three-year time limit was allowed for SMEs as an exception), and a penalty was introduced for undertakings which had transferred a productive activity within or between Member States;

for the ESIF **2014-2020**, the common provisions regulation[7] tightened the starting point by setting it to the date set in the State aid decision, and adds the relocation of a productive activity to outside the EU as another type of infringement.

5 The first reference to durability was in Regulation No 4253/1988 (Article 24) but non-compliance was not an infringement and there were no minimum time limits for maintaining an investment, and no reporting requirement

6 Regulation No 1083/2006 of 11 July 2006, Article 57

7 Regulation No 1303/2013 of 20 December 2013, Article 71

To ensure sustainability, one can already define at the planning stage exactly what the sustainable component of a funded project would be. This can be somewhat complex and could include not only the continued provision of the goods, services or facilities provided by the co-funded project to achieve the expected project benefits, but also – possibly- continued local action stimulated by the project and the generation of new (successor) services and initiatives as a result of the project funded.

This implies that a **robust sustainability analysis and a sustainability strategy**, incorporating the various elements above, **are needed as early as the design phase of a programme or project** in order to be able to achieve long-lasting results.

Therefore, sustainability is a key concept that **should be included in the assessment of effectiveness**: if the service engaged in as a result of the EU-funding stops at the very moment (or shortly after) the EU funding "well" dries up, there is a serious effectiveness problem.

A **good example** which demonstrates that sustainability can be at high risk if it is not properly assessed initially comes from the performance audit on airport infrastructure investments[8], where 10 of the 20 airports audited were found to be in deep financial trouble. Some of the airports only had one small plane flight per week and one airport audited was not even expecting a single plane in the next few months.

The EU co-funded the airport in Crotone (Calabria) in Italy with € 4,7 million (new terminal, increased apron space, investments on the runway and taxiways, and a control tower). Because of a change in national and regional planning, preference is given to nearby airports. Therefore, this airport was not used at the time of the audit visit, and there were no planes expected in the following months.

Because of the very low number of passengers attracted to the airports, and the very limited number of aeroplanes landing, both of which provide income to the airport authorities in the form of passenger taxes and plane landing fees, these airports will not become financially sustainable in the long run (no chance of breaking even). The sustainability of the EU-funding invested is in the hands of the national or regional authorities, who also usually have deficit problems on their overall balance sheets. These authorities are forced to continue to subsidise the airport accounts with public funding, to pay the staff to keep the airport open, and to ensure the maintenance of the investments made. If they do not do so, the EU co-funded investments will be revealed as useless.

Deadweight

Deadweight occurs where funding is provided to support a beneficiary who would have made the same choice in the absence of aid. In such cases, the outcome cannot be attributed to the policy, and the aid paid to the beneficiary has had no impact. Thus the share of expenditure which generates **deadweight is ineffective by definition**, because it does not contribute to the achievement of the objectives.

A **good example** of the phenomenon of deadweight is taken from the performance audit of the Marco Polo (MP) programmes[9]. This audit found serious indications of deadweight because:

- 13 of the 16 beneficiaries audited confirmed that they would have started and run the transport service even without a subsidy;

- The programme evaluator indicated that "the majority of the projects would also have started without subsidy";

- the Commission, as a manager of the programme, indicated in its report to the European Parliament and Council that "42 % of beneficiaries stated that their projects would definitely have gone ahead without MP funds".

Thus, many transport services started up using the Marco Polo EU funding support and once the three years of start-up support were over the services provided by the project funding stopped. This is explained by the fact that:

- heavy goods are transported over long distances by sea, rail or inland waterway for cost reasons in any case, especially if shipments can be planned in advance, and

- Marco Polo funding covers such a small part of the total project cost that it cannot be seen as a real incentive (in the 16 projects audited by the ECA, the subsidy covered only 2,8 % of the amount invested by the beneficiaries).

Another example was found in the ex post evaluation of the 2007-2013 Cohesion policy programmes giving support to large enterprises. This report concluded that "in not less than 30 % of cases analysed, the ERDF support has not influenced the large firms' investment decisions".

Measuring deadweight is not always easy, as one must find relevant and convincing evidence. In the case of transport, especially in the case of rail projects, this is relatively easy as operators need to buy their slots on railway lines a long time in advance, and so they will run the service, with or without any EU funding which comes later. It is acknowledged that this is not the case everywhere but, given the importance of such findings, the preliminary study should actively seek to assess the possibilities in each field of finding convincing evidence of possible deadweight, and determine how to obtain this evidence.

EU added value

EU added value is another fundamental aspect to the achievement of sound financial management. The concept of EU added value is often used by the Commission as a justification for EU expenditure. The Commission has repeatedly stressed that EU added value is a key test for justifying spending financed by the EU Budget, and the importance of this concept has been confirmed by the European Parliament and the Council[10]. But without a clear definition almost anything can be justified as worth being EU co-funded.

When searching on the net, it is significant that not many definitions are available. For example, the

9 See Special report N° 3/2013 "Have the Marco Polo programmes been effective in shifting traffic off the road?"

10 See ECA Annual Report 2013, "Chapter 10: getting results from the budget".

Commission, in its Health programme, defines EU added value as "the value additional to the value created by actions of individual Member States. It is the result of EU support activities which are additional to the value that would have resulted from national or regional levels funding and can concern coordination gains, legal certainty, greater effectiveness or complementarities. It reflects the broader European relevance and significance of the action funded".

The ECA Annual Report 2013 describes EU added value as "***the value resulting from an EU intervention which is additional to the value that would have been otherwise created by Member State action alone***" (a similar definition was provided in Special Report No 6/2014).

In 2013, a Chamber II internal working party developed a questionnaire to assess the notion of EU added value. The questionnaire suggests that EU added value can be considered present when the EU funding support enables bigger, better projects to be undertaken and/or implemented sooner than would otherwise have been the case. For example, the following questions need to be tackled to assess the issue of EU added value:

- Is the project made possible purely through EU funding?
- Has the EU funding been added to other funding rather than replacing it?
- Is the project being undertaken more speedily or on a larger scale because of the EU funding?
- Are there more beneficiaries because of the EU funding?
- Does the EU funding produce higher project quality?
- Does the EU funding support make it possible to address critical issues at an early stage of the project?
- Does the EU funding supply critical resources to fill funding gaps?
- Does the EU funding allow other funds to be leveraged (additional public and/or private funds which would otherwise not have been channelled to this project)?
- …

Making funds available does not per se add EU value. Three main conditions must be met to add EU value: that public intervention is needed; that the budgetary measures are cost-effective compared to non-budgetary instruments (i.e. regulatory measures); that EU level spending can demonstrably secure better results than national budgets alone. The ECA auditors should therefore try to focus on these three particular criteria when including an EU added value focus into their questionnaire.

A good **example** of an attempt to translate the concept of EU added value into meaningful and operational audit criteria, which could then be used consistently and systematically in future performance audits, was found in the Special Report on renewable energy[11]. This report concluded that Cohesion policy funds in this field had limited EU added value, as the projects audited did not make their full contribution to the EU's energy objectives. This somewhat vague conclusion already makes it clear that meaningful and operational audit criteria for assessing EU added value, compared to the eight questions above, are not that easy to find and apply.

> The main issue here is that, ideally, the EU should manage a few EU projects (but of real EU added value), rather than "a myriad of projects" which make the Commission's management a virtual supervision of the Member States' own management of previously negotiated and adopted programmes

"Results, or no results", that's the question for the ECA (and not only in transport)

Performance audit at the ECA is about assessing whether the money has been spent properly, taking into account the principles of economy, efficiency and effectiveness. There are two main performance audit approaches, which are often combined. The first is auditing performance directly (assessing inputs, outputs, results, impacts and

11 See ECA Special Report N° 6/2014 "Cohesion policy funds support to renewable energy generation — has it achieved good results?"

their relationship), and the second is auditing the management and control systems (e.g. analysing the adequacy of the policies and procedures implemented by managers for promoting, monitoring and evaluating performance).

Every year the ECA launches up to 30 performance audits as part of its annual rolling work plan, in line with its multi-annual strategy, after a specific priority-setting exercise. The ECA Special Reports reporting on those audit tasks provide independent information to the discharge authorities (Parliament and Council), and to the European public as a whole, on the execution of the EU budget. Based on its findings, the ECA also makes recommendations to improve the financial management of the EU funds applied. These recommendations might involve financial savings, better working methods, avoidance of waste, and/or more cost-efficient achievement of the expected policy objectives.

With respect to results, the most common findings of performance audits in the transport field were that:

- In many Member States and regions, there was no proper overall long-term planning of infrastructure development, involving all the stakeholders (national, regional and local public authorities dealing with transport and environment, private operators, users). In addition, there was often little or no analysis of what was already available; forecasts on future use were limited in their quality; and analysis of the costs and benefits of investment was often low quality or missing completely;

- The management of EU-funded projects in the Member States has, in many instances, been low quality. For example:

    - o the project objectives did not always reflect the EU transport policy objectives;
    - o the project selection was not always transparent, with the main problems being in the selection and award criteria and prioritisation;
    - o costs were underestimated and benefits inflated at the planning stage, while during project implementation, delays and cost overruns were the rule rather than the exception;
    - o project monitoring by Managing Authorities was rather superficial because it only related to physical outputs instead of assessing the results achieved, and
    - o the Commission's supervision was often inadequate or too distant to ensure effective spending, and supervision was not based on relevant indicators (only output-related indicators at project level).

- There is a lot of bureaucracy at national level when implementing transport projects. Numerous authorisations were needed, such as building permits, cultural and archaeological authorisations, and environmental impact assessments. Bureaucratic hurdles include calls for tenders ending in national courts and court appeals on land expropriation decisions. In many cases, this bureaucracy caused long delays beyond the initial deadlines, and the loss of the highly desirable project ownership resulting in failure to implement highly desirable projects. A **good example** was the seaports audit report which was explicit on these facts: delays of up to 22 years (in Greece) and 33 different authorisations (in Italy) were noted as the worst cases within the audited projects.

The main visual effect of this is that a lot of **infrastructure** has been built (for example: port quays, airport terminals, stretches of road...) which at the time of the audit some years after is **either unused, or severely underused**. While it is clear that transport infrastructure usually needs some time to be fully deployed and used, the EU co-funded infrastructures were often the result of inadequate needs assessments using optimistic forecasts, unrealistic objectives, and an improper balance of costs and benefits., In many instances the investments were made with the main goal of absorbing money allocated years before. Huge delays, important cost overruns, and loss of project ownership were some of the main reasons for many of the cases of ineffective spending observed.

Even if the overall framework allows cost allocations to be rescheduled within Operational Programmes, the reality is that for many large infrastructure projects receiving EU investment, the EU-funding is neither effective, because the expected objectives are not achieved, nor efficient, because the input/output and result ratios are not good. Moreover, nobody (not the Managing Authorities, or the Commission) really felt accountable or responsible for this disappointing result.

This, however, has an important "***opportunity cost***" because the same money could have been spent on another more effective, operational or useful project for the region (e.g. a school, a home, a hospital etc. could have been built instead of, for example, an empty port quay). This is detrimental not only because the money itself is not used well, but also negatively affects the image of the EU and the support it gives to regions, since journalists and anti-Europeans prefer to report on "bad" cases, and do not focus on good ones, as there is "no story to tell".

Impact: what can be measured and assessed, and what cannot?

With regard to impact, the usual reason for requesting cohesion funding is "to create/boost local employment" or, even worse, "to increase the regional GDP/GNI". Believe it or not, the latter was actually found regularly in applications for EU co-funding support.

One indicator for measuring the impact on GDP/GNI at regional level could be to assess "Foreign Direct Investments" (FDI) in the years after the investments took place. Income of capital, increases in tax revenue, innovation transfer and job creation are all advantages of FDI. However, it is almost impossible to find links at project level with an improved situation at the more macro-economic regional GDP/GNI level (unless the region is very small, and the project is very big). Such links could only be provided at ex post evaluation level, with the necessary disclaimers and an appropriate methodology to avoid biases. And even at that level, it is uncertain whether the results can really be attributed to the project(s) and to the EU co-funding for these projects.

For example, empirical evidence from 45 companies surveyed through the ex-post evaluation of the Cohesion policy programmes for large enterprises[12] concluded that the 2007-2013 ERDF and CF support typically acted as a pre-condition for investment by large enterprises which created jobs, while the main influencing factors were the long-term corporate strategy, the local industry structure and the availability of good transport infrastructure. Although the monitoring data confirmed that the target of the number of jobs created for large enterprises was achieved, the positive outcome could only be partially attributed to the EU programmes because of the "*weak causal link between the ERDF support and project implementation*".

Similarly, the famous "***leverage effect***", also known as the "***multiplier effect***" is difficult to assess, as the projects supported are usually very different in size and complexity, and have input from various sources. A recent study[13] indicated that:

- good institutional conditions appear to be a pre-condition for well-targeted and economically profitable investment in infrastructure;
- investment in small-scale projects enhancing intra-regional connectivity is paying off, especially in less advanced regions with effective and accountable governments.
- ...

To sum up: assessing the impact of projects is not an easy task in itself. Only a well-defined, strategic, study with an appropriate methodology and sampling can provide useful insights for future reference.

12 Ex-post evaluation of Cohesion policy programmes 2007-2013, Work Package 4. KPMG/Prognos, 2016

13 Government quality and the economic returns of transport infrastructure investment in European regions (London School of Economics – 2016)

Assessing impact is nevertheless particularly useful and important if and when it tackles the main reason for the funding. For example, the Marco Polo programme funding[14] was supposed to support the EU transport policy goals of diminishing the environmental side-effects of freight transport, easing road congestion and improving road safety. To do so, it had a budget of 552 million euro to fund projects to counter the rise in international road freight transport by shifting the expected aggregate increase to railways, inland waterways and short sea shipping, or a combination of those transport modes.

When looking at the available data at Eurostat level on the use of the transport modes over time, one notices immediately that the programme funding did not produce its intended effects (see Figure 1).

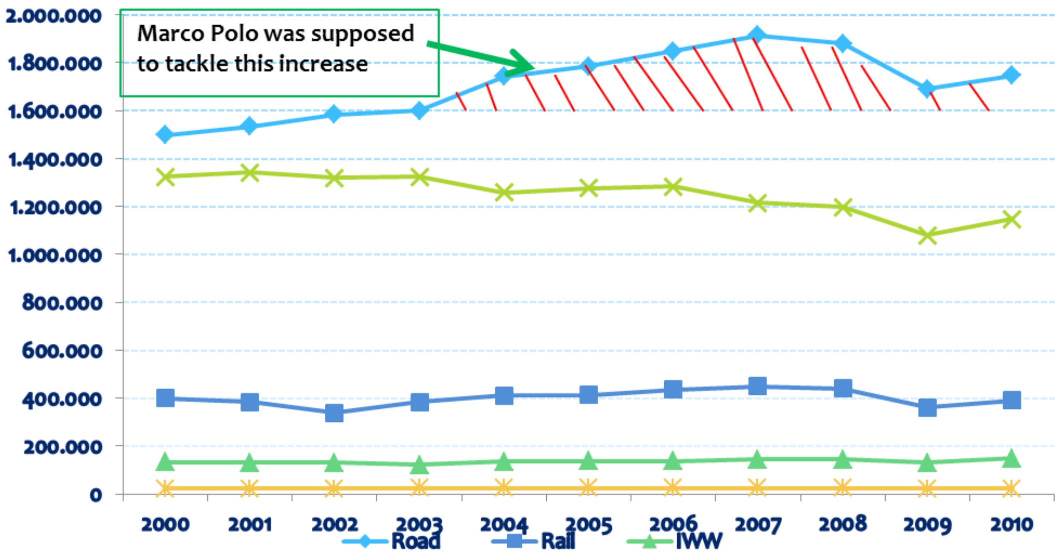


Figure 1: Impact of Marco Polo Programmes on the use of road transport in Europe (Source: ECA compilation of Eurostat data)

14 See Special report N° 3/2013 "Have the Marco Polo programmes been effective in shifting traffic off the road?"

In addition, even more worrying is the fact that at project level, ***there is hardly any information, data or evidence available to audit, not even on the direct jobs created, far from being able to determine the indirect and induced employment effects***[15]. The only data available in some of the audits were the "direct, temporary jobs during construction".

A good example was the most recent (2016) maritime transport performance audit which assessed the impact of EU funding of the infrastructure investment projects audited on job creation in 19 port areas. The results showed that:

- o most ports had some figures for job creation at port level and project level, but there was no common methodology for estimating these job figures, and they were provided on an ad-hoc rather than an annual basis. The reliability of the figures could not be confirmed and the methodological issue rendered the comparison of the data with the other audited ports useless, and
- o there is little willingness or ability within the Member States or port authorities to invest substantial financial and human resources in developing yearly, detailed and externally valid data on these employment and added value indicators.

The main lesson is that although the idea of measuring the impact and outcomes of EU funding for projects is a noble aim, in order to determine whether EU support has really helped to create jobs, the practical experience obtained through auditing in the transport field (one of the major domains for expenditure) has shown that despite the fact that it might be very politically desirable to demonstrate the added value and positive effects of EU support, it is not easy to establish clear results because the limited data available and the way the data is gathered.

15 Definitions used:
"***direct jobs***" is the creation of employment measured in Full-time Equivalents (FTEs) directly related to the port activity;
"***indirect jobs***" are those jobs generated in the national economy as the result of local purchases by firms (not individuals) directly dependent upon the port activity, whereas
"***induced jobs***" are jobs created locally because of purchases of goods and services by directly employed individuals.

The main suggestion for auditors when setting up a performance audit of transport in particular would therefore be: if there is a need to include a question on the job creation or higher level impact of EU-funding in your questionnaire, limit yourself to assessing the quality of any evidence made available by the auditee and the methodology applied to obtain it, in order to assess whether you can safely report on it or not. If not, then only report that there is no data available to avoid jeopardising report quality.

Conclusions

This article reported on the lessons learned from auditing the performance of significant investments in various modes of the transport sector. It provided important lessons which can be taken up in other sectors as well, with respect to the methodology for conducting your preliminary study, assessing risks ahead and for tackling important topics such as sustainability, deadweight and EU added value which regularly arise when analysing much EU expenditure.

In addition, it is important to measure and report upon the actual results. No matter what the spending rhythm and trend may be in a certain field, the actual, visible results are important and good and bad (and sometimes ugly) cases need to be reported to improve future spending in the given area.

Finally this article has also dealt with the link between EU funding and more general impacts and outcomes, including aspects such as the "leverage effect", using recent studies. The main issue here is that there is usually little or no data available ex post as evidence or support for the ambitious declarations made to obtain the EU funding at project application stage.

While getting EU money is one thing, obtaining results are another, and they are (and should be) connected.

Or, as Winston Churchill once said

"However beautiful the strategy, you should occasionally look at the results.

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