EUROPEAN COURT OF AUDITORS
Independent external auditor of EU finances

Presentation of Jan Kinšt, Member of the ECA,
at the International Conference on Internal Audit
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ad l.a) Institutions of the EU

- European Parliament
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- European Commission
- Court of Justice of the European Union
- European Central Bank
- European Court of Auditors
ad l.b) Mission of the ECA

According to Articles 285-287 of the Treaty on the Functioning of the EU, the European Court of Auditors shall:

- examine **externally** and **independently** the way in which the European institutions discharge the collection and spending of the EU funds,
- examine whether financial operations have been **properly recorded** (financial audit), **legally and regularly** executed (compliance audit) and managed in accordance with the **economy, efficiency and effectiveness** (performance audit),
- report to the European Anti-Fraud Office (OLAF) the cases of alleged economic criminality,
- assist **the Council and the European Parliament** in execution of their function of budgetary authorities,
- make the results of its work known to the EU citizens through the **publication of audit reports**,
- deliver **opinions** on proposals for new European legislation of financial character.
Functioning of the ECA

- The ECA is a **collegiate body** – the College consists of **27 Members** (one Member per Member State),
- On the proposal from a Member State, the Members are appointed by the European Parliament and the Council for a **six-year**, renewable term of office,
- The Members elect the Court's **President** from amongst their number for a three-year term of office,
- The Members shall **carry out their duties independently**, namely of the government of their Member State,
- The Members are assigned to **audit Chambers** (according to the budgetary area audited),
- The Chambers have the powers to **approve** certain categories of report (particularly **performance audits**),
- It is preferable that the reports and opinions be **adopted by consensus**.
ad l.c) Audit field

According to the Treaty on the Functioning of the EU, the Court of Auditors shall audit the:

a) General budget of the European Union

b) European Development Funds (EDFs)

c) European Agencies

d) European Schools

e) European Central Bank (its operational efficiency)
ad l.d) Cooperation with National Audit Institutions (SAIs)

• The Treaty on the Functioning of the European Union stipulates that the ECA and the SAIs shall cooperate on audits carried out in the Member States,

• Obvious limits – different auditees (European Commission x national bodies),

• National Audit Institutions provide logistical support to the Court's auditors in the location where the audit takes place, national experts can take active part in the Court's audits,

• Necessary condition for the cooperation between the Court and the SAIs is mutual preservation of independence,

• Presidents of the SAIs and the Court's president meet every year on the occasion of the meeting of the Contact Committee. The aim of these annual meetings is to share information and coordinate activities in the areas of mutual interest,

• In the scope of the Contact Committee – working groups, workshops – exchange of experience,

• Tendency to approximate audit standards (reaction to „National Declarations“), endeavour to carry out joint audits (pilot audit also with the Czech SAI).
II. Auditing

a) Types of audit

b) Actors of the Court's audit

c) Financial audit

d) Compliance audit

a) Structure of the Annual Report and the results for 2009

b) Performance audit
ad II.a) Types of audit

A. Financial audit
   - Reliability of accounts: are the EU accounts complete and accurate?

B. Compliance audit
   - Are both revenue and spending operations carried out in conformity with respective legislation?

The Treaty on the Functioning of the EU requires the Court of Auditors to carry out the above audits every year. These audits form the basis for the Statement of Assurance (DAS), which is published in the Court's Annual Report (the EU budget and EDF) – presented in the European Parliament in November of the year n+1.

C. Audit of sound financial management – performance audit (EEE)

Mostly thematic audits, which are published in the Court's „special reports.“ Annually about 15 performance audits – presented to the European Parliament and the Council in the course of the year.
ad II.b) Actors of the Court's audit

- **Auditor:** European Court of Auditors
- **Auditee:** European Commission (in the case of administrative expenditures also other European Institutions), audit opinion addressed only to the Commission
- **Audit subjects:** Subjects managing the EU funds – European Commission, national bodies, implementing organisations, final beneficiaries
- **Client (primarily):** Budgetary authorities (European Parliament and Council) they grant discharge to the Commission
- **Client (secondarily):** National parliaments in the Member States
ad II.c) Financial audit

• Standard audit procedures in line with international auditing standards,

• Statistical sample – approx. 160 transactions,

• Standard opinion of the auditor (DAS), if the consolidated accounts of the EU for the year given provide fair and true picture of the cash-flow, financial results and assets and liabilities → single opinion for the Annual Report,

• Until 2006 (before the introduction of the accruals-based accounting system and in the first year of its functioning) the Court could not give an unqualified opinion.
ad II.d) Compliance audit (1)

- Detailed audit of the conformity of underlying transactions with applicable rules,
- Audit method based on „assurance model“ indicating auditor's level of confidence (95%),
- Contains 2 key „interconnected“ pillars:
  - Examination of the reliability of the supervisory and internal control systems
  - Sample checks of regularity of transactions relating to revenue and expenditure
    → both these examinations carried out on various levels of cash-flow (the Commission, bodies in the Member States) down to the level of final beneficiaries,
- Further sources: analyses of the declarations of the Commission's Directors-General, examination of the work of other auditors, OLAF etc.
Compliance audit (2)

- Audit of revenues and expenditures and of the total of 7 clusters of the EU budget expenditures (CAP, Cohesion, External Actions, Administrative Expenditures, …)

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- Examination of the functioning of the supervisory and control systems set up to ensure the legality of revenues and expenditures – detailed procedures depending on the type of management (types of management vary according to both the groups and types of expenditures),

- In the case of the European Commission the examination includes analyses of the Annual Activity Reports, the declarations of the Directors-General and the standards for internal control,

- In the case of shared expenditures the methodology includes also detailed examination on the level of national bodies (e.g. managing x paying and certifying x audit body),

- Use of reports of internal auditors for identification of risk areas,

- Emphases also on the ability to reclaim irregular expenditures,

- Apart from the identification of weaknesses in the supervisory and control systems also derivation of the size of the sample of transactions for direct testing.
Compliance audit (3)

- **Statistical sampling of transactions to be tested** – representative (MUS), for each cluster approx. 60-210 transactions (in total more than 1000 transactions),

- In order to increase efficiency of the audit being carried out, sometimes two-stage sampling (limited number of countries etc.) – if it is inevitable to increase the sample,

- Detailed audit of legality of transactions down to the level of final beneficiary → detection of errors in the sample,

- Qualification and eventual quantification of errors → extrapolation to the whole population and assessment of the most likely level of error (in total of expenditure and in a cluster),

- For both total expenditure and individual groups of expenditure the Court has determined materiality threshold of 2%,

- DAS opinion for total revenue and total expenditure and in the case of expenditures also for individual groups (specific assessment = mini DAS).
ad II.e) Structure of the Annual Report 2009

1. The Court´s audit opinion (DAS)
2. Revenue
3. Agriculture and natural resources
4. Cohesion
5. Research, energy and transport
6. External aid, development and enlargement
7. Education and citizenship
8. Economic and financial affairs
9. Administrative and other expenditure

Annual report for the European Development Funds
Financial audit and compliance audit – the Court's audit opinion for 2009

Presented in the European Parliament on 9 November 2010:

• Reliability of the accounts: unqualified opinion

• Legality and regularity of underlying transactions

  ✓ Revenues: unqualified opinion
  ✓ Expenditures: adverse opinion (material level of error)
  → results for individual budgetary groups:
    • unqualified: Administrative expenditures, Economic and financial affairs
    • adverse: Agriculture and natural resources, Cohesion, Research, energy and transport, External aid, development and enlargement, Education and citizenship
ad II.f) Performance audit

- The choice of audit topics wholly in the hands of the Court,
- Topics picked according to four main criteria:
  - Coverage
  - Financial volume
  - Risk
  - Relevance
- „No surprise approach“ – preliminary study carried out in advance of every performance audit, topic, criteria and availability of information always discussed with the Commission,
- Out of the „3 Es“ (economy, efficiency, effectiveness) generally stress on effectiveness (did the programs financed from the EU funds achieve stated objectives?) followed by analyses of the causes for shortfalls and by recommendations on corrective actions,
- Published in special reports always together with replies from the Commission (this applies also to the Annual Report).
Performance audit: Special Reports adopted in 2010

- No 1/2010 Are simplified customs procedures for imports effectively controlled?
- No 2/2010 The effectiveness of the Design Studies and Construction of New Infrastructures support schemes under the Sixth Framework Programme for Research
- No 3/2010 Impact Assessments in the EU institutions: do they support decision-making?
- No 4/2010 Is the design and management of the mobility scheme of the Leonardo da Vinci programme likely to lead to effective results?
- No 5/2010 Implementation of the Leader approach for rural development
- No 6/2010 Did the reform of the sugar market achieve its main objectives?
- No 7/2010 Audit of the Clearance of Accounts Procedure
- No 8/2010 Improving transport performance on Trans-European rail axes: Have EU rail infrastructure investments been effective?
- No 9/2010 Is EU Structural Measures spending on the supply of water for domestic consumption used to best effect?
- No 10/2010 Specific measures for agriculture in outermost regions and the small Aegean islands
... thank you for your attention ...