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Rédacteur en chef / Editor in Chief : Rosmarie Carotti

Tél. / tel.: 00352 4398 - 45506 - e-mail : rosmarie.carotti@eca.europa.eu

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- Leo Brincat, new ECA Member
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Membership of EU and NATO are serious security guarantees for our nation

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Questions to Kersti Kaljulaid, leaving ECA Member

Ms Kaljulaid was elected President of Estonia on 3 October 2016

By Rosmarie Carotti



Kersti Kaljulaid, leaving ECA Member

R. C.: Ms Kaljulaid you are the President elect of Estonia, due to take office on 10 October 2019. Please describe the nomination procedure for President in your country, what makes you known there and how you kept links with Estonia while being ECA Member since May 2004.

Kersti Kaljulaid: I have always seen Estonia as the place I love and Luxembourg the place I work in. I think Estonian people sensed this in my attitude for all 12 years. I was also Chairman of the Board of our oldest university, Tartu University (world ranked 347 in 2016). I was active in explaining European issues to our people.

My nomination for Presidency was made by Members of Parliament. You need 21 votes to be set up (I had 90) and 68 to be elected (I got 81). Estonia is a parliamentary democracy, which is why the Parliament elects the President.

R. C.: As President of Estonia you will be the highest representative of State in international affairs. Will you be able to use the experience you acquired at the ECA when Estonia will take the Presidency of the EU in July 2017?

Kersti Kaljulaid: I am certainly able to use my accumulated European knowledge, but Estonia is represented by a Prime Minister in the European Council. My formal European role is within the Arrialos group, where all Presidents not participating in the Council gather.

R. C.: ECA President Lehne recently said that the ECA needs to focus on reforming its products, in particular it needs to better tailor the annual

report to match stakeholder needs. What are your suggestions?

Kersti Kaljulaid: I wish President Lehne all the best and continuous success in developing the ECA. I think it is not appropriate for me to make technical suggestions though. I am sure the ECA will develop the annual report in the interest of the stakeholders as it has always done.

R. C.: What has changed for Estonia since it joined the EU and NATO and has it always been for the better?

Kersti Kaljulaid: Yes. Membership of EU and NATO are serious security guarantees for our nation. We may have technical disagreements over individual developments in the EU, but the essence remains. There can be no better Europe than Europe with the EU. Nothing can and will change this for Estonia. We intend to participate proactively in shaping European Union's future so that it retains its importance.

R. C.: There are different ethnic groups in Estonia. Will you be able to make a positive contribution to keeping the unity of the country?

Kersti Kaljulaid: Estonia has a population of very varied origins. But only one official language. So we all communicate in Estonian, but speak happily our native languages at home. We also have the state-funded schools for Russian-speaking community, which is very rare in Europe - most states only provide free education in official language or languages. We are not defined by our origin, but by our common goals and objectives.

R. C.: Ms Kaljulaid, you will be the first female President of Estonia. How will you be able to combine your family life with children with your new position?

Kersti Kaljulaid: I hope this question will never be asked again - and I have told so to the Estonian press. All children have mothers and fathers, all people have family obligations. It is not in any way special for women in the 21st century.

We should not only be proactive but also seen to be proactive

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Interview with Leo Brincat, new ECA Member

By Rosmarie Carotti



Leo Brincat, new ECA Member

R. C.: Mr Brincat, as Minister of Finance, and more recently as Minister for Sustainable Development you were in politics but you are also qualified as an Associate and Fellow of the Chartered Institute of Bankers London. How do you see this helping your role as ECA Member and what tasks have you been assigned here in the ECA?

Leo Brincat: What really struck me in the few days that I have been here is the diversity of the ECA Members. They come from ministries, national audit offices, from Government Cabinet posts and parliaments both national and European. The fact that we come from different backgrounds offers us an opportunity to tackle the challenges ahead with a spirit of unity in diversity. It leads to better complementarity. In my case, I had worked in banking since 1966 until I retired ten years ago, and had been in Parliament for over 34 years. I nevertheless never ever found myself in a situation where I had any conflict of interest, even when I had also worked in the corporate sector.

Here in the ECA I have been assigned a very challenging task: as reporting Member of the Annual Report chapter on Revenue in Chamber V. Revenue is likely to gain added importance because of the dynamics of the sector as well as the future developments that could be linked to Brexit. As the UK is considered a net contributor this will imply big challenges for the EU in allocating its own resources. What will happen? Less spending or more money collected from the member states?

In my new role, which I took over just two weeks ago, I committed myself a priori to master my brief to the best of my ability. I feel that the revenue dossier has to be looked at in a multifaceted manner: from the GNI aspect, where we depend on the statistics collected from the member states and which systems need to be kept under constant review; the VAT component, which unless effectively monitored can prove to be both problematic and open to abuse; as well as in the light of a possible Brexit. I personally feel that we have to look at its potential impact even as of now.

R. C.: Until April 2016 you were Minister for Sustainable Development, the Environment and Climate Change in Malta. The EU has played an important role in shaping the 2030 Agenda for Sustainable Development. What contribution could the ECA, and other SAIs, make to the achievement of the sustainable development goals?

Leo Brincat: Sustainable Development does not just mean the environment. One of the biggest problems Europe is facing today is that even in countries which are experiencing economic growth, social inequality is creating new problems. Rising social inequality is the main reason for populism in certain EU countries as well as for emerging anti-globalisation trends.

I was very pleased to see that the upcoming INCOSAI places a lot of emphasis on the role of the SAIs as far as sustainable development is concerned. Sustainability has to be addressed in many sectors as there is much public sector spending which can impact on sustainability.

The ECA has a new focus on social economic governance and not just on financial management. For this reason, I think we should focus more on sustainable development. It is worth recalling that the ECA had already identified this as a priority for 2016.

We must respect the national imperatives and the national needs on sustainable development but we also have to think globally and regionally. Sustainable development has one ultimate objective: the enhancement of the quality of life. In fact, the biggest challenge for member states and

EU institutions will be to effectively benchmark the progress itself.

R. C.: Under your term of office as Minister for Finance and Commerce, the National Audit Office of Malta assumed its full independence by becoming part of the Office of the Parliament of Malta. How do you see the ECA's independence? How should its relationship with the European Parliament be and how do you intend to shape your relations with it?

Leo Brincat: In Malta, until 1997, the audit office fell under the responsibility of the Ministry for Finance, and thus did not have full autonomy. When I legislated in Parliament in 1997 on the establishment of this office I had the support of all the political forces in Malta. Since then, the necessary changes have been set up and the National Audit Office is answerable to the parliament. The Auditor General, the Ombudsman and key Officials have to be approved by the whole Parliament with a two-thirds majority.

Concerning the ECA, I consider its independence to be unquestioned. However, interinstitutional synergy is a must. Since the ECA was created as an idea of the European Parliament, one expects that there should be the most proactive relationship possible with CONT and other Committees. If the ECA does not give due consideration to what these Committees might be saying, it could end up operating in a vacuum.

Personally, I look forward to a fruitful and close interinstitutional cooperation within the area that has been entrusted to me, the revenue side. This is linked to the financing and administration of the Union, particularly through the EU's budgetary own resources.

R. C.: What would be your wish in terms of ECA cooperation with the Council?

Leo Brincat: There definitely needs to be a more proactive approach. We have to convince the Council, as the key decision-maker, that it is in our mutual interest to have the strongest relations possible. The same obviously applies to the Commission.

I am quite sure that under our new Presidency we will be committed to enhancing our relations further with all key stakeholder Institutions.

When people hear about "EU structures" they do not necessarily realise where the powers of individual institutions begin and end. Let us cite the ECA as an example. We are not a court of law. We purely recommend what needs to be done. Being the "financial conscience" of the European Union, I think we can achieve better results if there is closer synergy with all the European institutions, particularly since it is in their own interest to receive a clean bill of health.

R. C.: It is very difficult to quantify the added value of the ECA's work. You have often stressed the importance for the citizens of value for money. The ECA says that more efforts have to be put into looking at results.

Leo Brincat: The biggest quantum leap the ECA has made in recent years was to broaden its perspective from financial issues to economic governance. But European institutions are still perceived to be detached from the ordinary citizen and this is one of the reasons why populism is presently gaining ground.

Today people look at how effectively money is spent because you can still spend money correctly but not effectively. I would also link this with the high interest which ordinary citizens and taxpayers have in issues like fraud and irregularity detection. Technically, fraud does not fall under our domain but I believe that this is an area where the ECA can be more proactive. The expectations of the public in general and of the stakeholders on vigilance of fraudulent behaviour are likely to rise. In highlighting irregularities at an early stage, the ECA will not only address their concerns but also be able to add even more value to its work.

I think there should be more regular, specific reporting on how we are effectively trying to protect EU interests and satisfy ourselves about Commission actions to combat fraud and abuse or misuse of funds. This way the current expectation gap between what we are actually doing and what the stakeholders expect from us can be narrowed.

R. C.: The ECA's auditee is the Commission and not the member states.

Leo Brincat: I respect the roles of each Institution but I think that there are many areas where people expect more action. As external auditors we should look at whether the institutions themselves adequately address anti-fraud actions, and whether the strategies and actions in place lead to overlapping or lack of coherence. Many institutions have their own fraud complaint mechanisms. Further, we have to establish whether they are appropriate or not, and we have to ensure their effectiveness and independence. Once you mentioned the Commission, I think we have to ensure that its current internal control standards address fraud risks directly, that risk management exercises are conducted regularly, and that the reporting on anti-fraud actions is sufficient to ensure public accountability.

We should not only be proactive but also be seen to be proactive.

Today a very important ECA report came out: Special Report 27/2016 entitled "**Governance at the European Commission - best practice?**" I think we nevertheless have to also focus on the member states because most of the shortcomings are often the result of shared management of funds. Ultimately any member state is responsible not only to its own taxpayers but also to the EU taxpayers. This is where our role as external auditors of the EU institutions comes into play.

I see the cooperation between the ECA and the Supreme Audit Institutions (SAIs) progressively increasing. I think that the SAIs themselves are interested in this linkage; collaborating closer with the ECA gives them more prestige and more added value. It is effectively a two-way synergy. But we should go beyond that and even re-focus on national declarations, as a number of institutions are made up of representatives of member states. Ultimately the focus should also be on the latter.

R. C.: In the European Parliament you also said that the ECA should highlight more risks and failures in detecting deficiencies in the national reporting systems.

Leo Brincat: At a time when people's concern about seeking value added from institutions is increasing, we have to see what can be done differently. We cannot allow situations to prevail where people become cynical or indifferent to what is being done. We have to carry out a SWAT analysis to see whether the present systems in place in combating fraud are effective or not. Today people have had too much talk and too little action to go by. We have to benchmark the recommendations that have been made by the ECA over the years and gauge how many of them have been implemented.

Where the ECA needs to work differently is in the projection of its own role. Since the ECA is funded by EU taxpayers, people should be aware of its importance through a more effective communications strategy and higher visibility. In better publicising our reports we actually help maximise support for our initiatives

R. C.: How do you intend to improve the perception of Malta within the EU institutions?

Leo Brincat: I am here as a nominee and not as a representative of the Maltese Government. When I will meet the Parliamentary Committees in Malta to present the ECA report -as all other members are doing in their own respective countries- I will also be meeting the top officials of the National Audit Office and other institutions. As in the case of my colleagues, my objective is not to promote my own country's interests but to ensure that through its actions it will safeguard, like all other member states, the basic principles which the EU expects from one and all.

Finally, apart from highlighting what the ECA is doing, I will also be availing myself of the opportunity to outline the important statement of the ECA President where he emphasised that we all have to work harder to ensure that public trust in the institutions is strengthened further throughout the Union.

By Lazaros S. Lazarou, ECA Member for the Annual Report



Martina Dlabajová, Vice Chair of the European Parliament CONT committee; Klaus-Heiner Lehne, ECA President; Lazaros S. Lazarou, ECA Member for the Annual Report

We presented our 2015 annual report on the implementing of the EU budget (annual report) earlier than in previous years allowing the discharge procedure to start a month in advance. Our annual report focuses on the work for the statement of assurance, required by the EU Treaty. For a full picture on EU spending, work on performance is highlighted.

Our 2015 statement of assurance has some ...

... good news – a clean opinion on the accounts and ...

As for the last years our audit work has shown that the accounts prepared in accordance with international standards present, in all material aspects, a true and fair view.

The 2015 annual report includes for the first time key audit matters. Key audit matters are those matters that in our professional judgement were of most significance in our audit of the financial statements in the current period. The key audit matters relate to financial instruments on shared management, the European Fund for Strategic Investments (EFSI) and accrued charges.

Main products



EU audit in brief

Our EU audit in brief introduces the 2015 ECA annual reports. After the President's introduction it includes the key findings and messages. It describes overall results and has a closer look at revenue and spending areas.



2015 annual reports

ECA publishes, as required, its 2015 annual reports in the Official Journal. Edition C 375 of 13 October 2016 includes:

- (1) the annual report on the implementation of the budget concerning the financial year 2015; and
- (2) the annual report on the activities funded by the 8th, 9th, 10th and 11th European Development Funds concerning the financial year 2015

All the information relating to the 2015 annual report is available on the Court's external site: <http://www.eca.europa.eu/en/Pages/AR2015.aspx>

... revenue ...

Overall audit evidence indicates that revenue is not affected by a material level of error. In particular for revenue:

- we assessed the examined systems as effective for GNI and VAT based own resourced;
- we assessed the examined systems as overall effective for traditional own resources. The key internal controls in Member States visited are assessed as partially effective; and
- We found no errors in the transactions we tested.

In our opinion, revenue underlying the accounts of 2015 is legal and regular in all material respects.

... and a continuation of our opinion on regularity of spending.

In our statement of assurance we provide the basis for our adverse opinion on the legality and regularity of payments underlying the accounts. It states that these are:

- materially affected by error;
- our estimated level of error is 3.8 %; and
- our overall conclusion is driven by the higher estimated level of error for spending on reimbursement basis and is corroborated by the Commission's analysis of amounts at risk present in the annual management and performance report for the EU budget.

Chapter 1 includes several cross sections of our work. It shows that our 2015 audit results are broadly similar to recent years. The breakdown of the overall estimated level of error by type indicates that ineligible costs included in costs claims contribute for more than 40 %, followed by incorrect declarations of area by farmers (19 %) and ineligible projects/activities by beneficiaries (16 %). The contribution of serious errors in public procurement (tendering and implementation) is down to the fourth place this year.

Our opinion on transactions underlying the accounts

Diagram 2
2015 results of transaction testing for the EU budget as a whole

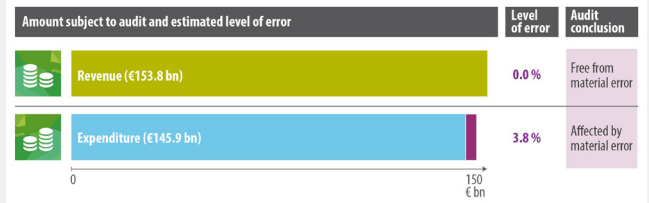


Diagram 2 from the EU audit in brief

Reimbursement versus entitlement spending

The different risk patterns of reimbursement schemes (where the EU reimburses eligible costs for eligible activities on the basis of cost declarations made by beneficiaries) and entitlement schemes (where payments are made on meeting conditions rather than reimbursing costs) have continued to have a major influence on the level of errors in the different spending areas. Reimbursement of costs is linked (orange in the diagram below) is linked to a much higher level of error (5.2 %) than spending on an entitlement basis (blue in the diagram below) (1,9 %)

Diagram 8
The relationship between basis for payment and estimated level of error in EU transactions (2014-2015)

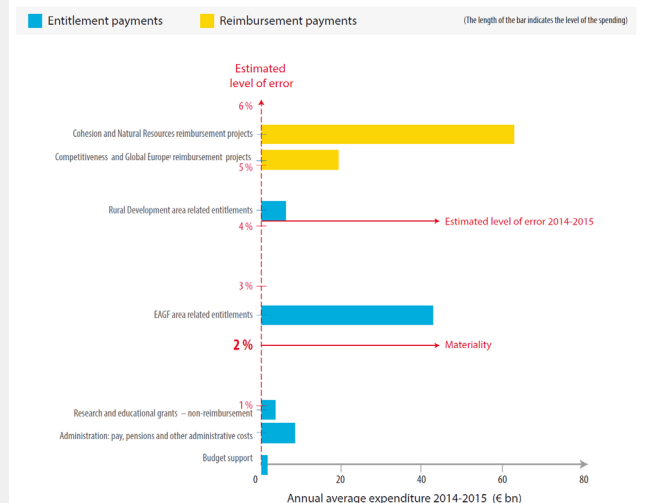


Diagram 8 from the EU audit in brief

A spin off of the recently published special report on Commission governance (included in annex 1.2) compares the US and EU approaches to testing and reporting on improper and irregular payments. It shows that the EU is not alone in having an estimated level of error. The US government reported a level of 4.4 % of improper payments in 2015.

Our 2015 annual report further presents our findings on:

Budgetary and financial management

Chapter 2 gives an overview of key budgetary and financial management issues arising in 2015 and affecting the EU budget and balance sheet. The chapter analyses outstanding commitments, the period from initial commitment to acceptance of spending, the backlogs in the use of European Structural and Investment (ESI) funds and the first operations of EFSI and the delay in the Connecting Europe Facility.

We conclude that the amounts to be paid in the current and future years remain at a very high level (€ 339 billion up from €305 billion end of 2014). However the Commission has not produced a cash flow forecast covering the next 7 to 10 years. Such a forecast would enable stakeholders to anticipate future payments and budgetary priorities.

The increasing use of financial instruments not directly funded by the EU budget nor audited by us, poses higher risk for accountability and the coordination of EU policies and operations.

Chapter 2 provides several graphs

For example on European Structural and Investment (ESI) funds

Figure 2.7 –Unused commitments of ESI funds at 31 December 2015 as a percentage of 2015 general government expenditure

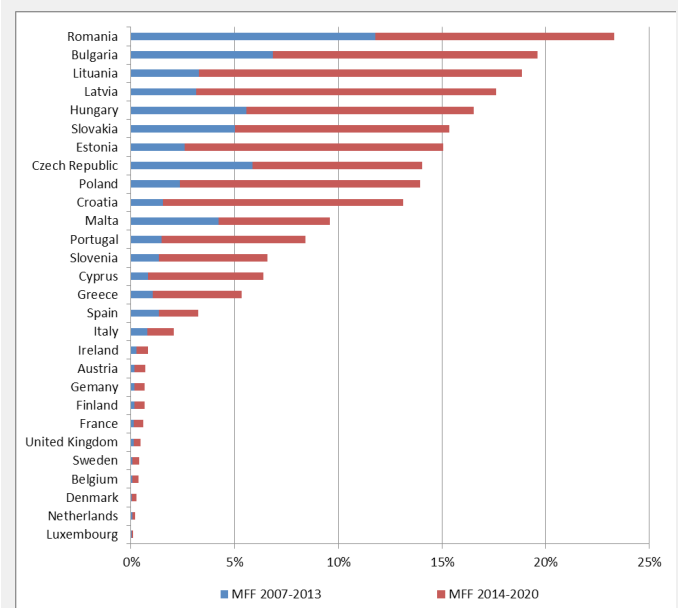
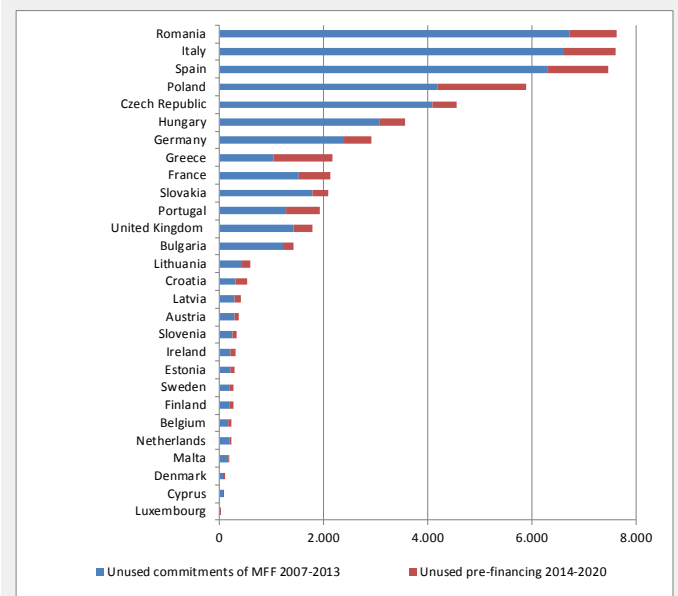


Figure 2.8 2007-2013 ESI Funds unused commitments and 2014-2020 pre-financing at the end of 2015



Specific assessments of spending areas

Last year's restructure of the annual report following the multi-annual financial framework headings is continued in the 2015 annual report.

Chapter 5 presents our audit findings on competitiveness for growth and jobs. Almost all errors we found in cost statements in this area were due to the beneficiaries misinterpreting the complex eligibility rules or incorrectly calculating their costs.

Chapter 6 includes our observations on Economic, social and territorial cohesion. Most errors are due to ineligible costs declared by beneficiaries.

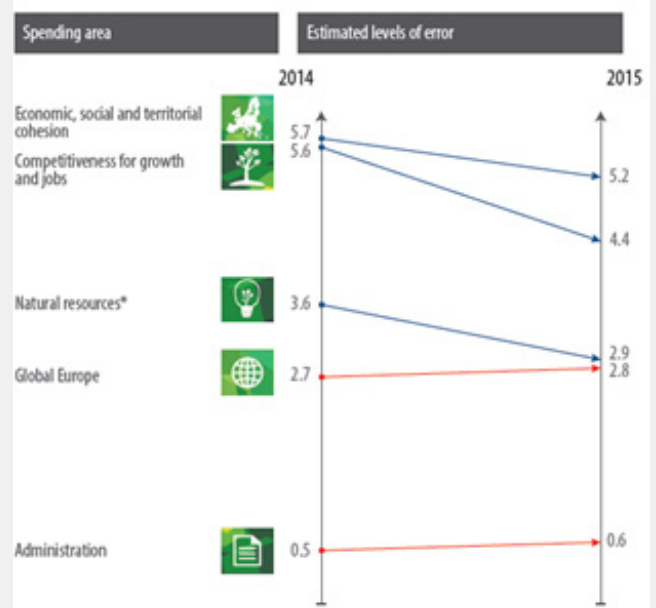
Chapter 7 provides our view on spending on natural resources. The nature and patterns of error varies significantly between EAGF and the other spending areas under 'natural resources'. In EAGF, we most frequently identified over-declaration of agricultural land surface. In the other areas of natural resources spending the ineligibility of the beneficiary, activity or project or expenditure featured highest.

Chapter 8 includes our findings on both spending on 'global Europe' (MFF heading 4) and for the first time a part on MFF heading 3 'security and citizenship'. In global Europe we found that the most frequent type of error was ineligible expenditure claimed by final beneficiaries.

All spending areas, except for administration (chapter 9; 0.6 %), are affected by a material level of error. We again found the highest estimated levels of error in spending under Economic, social and territorial cohesion (5.2 %) and for Competitiveness for growth and jobs (4.4 %). Management mode has a limited impact on level of error. We continue to find nearly the same estimated level of error under shared management with the Member States (4.0 %) and for expenditure managed directly by the Commission (3.9 %).

Comparison between estimated levels of error for EU spending areas

Diagram 5
Comparison between estimated levels of error for EU spending areas (2014-2015)



All chapters include examples

All chapters include relevant, balanced and representative examples to help readers understand our findings. For shared management the example provide the names of other Member States where similar findings were found.

We do not examine transactions in every Member State, beneficiary state and/or region each year. The examples provided in the annual report are for illustrative purposes and demonstrate the most typical errors found. The naming of certain Member States, beneficiary states and/or regions does not mean that the examples presented do not occur elsewhere. The illustrative examples presented in the annual report do not form a basis for conclusions to be drawn on the Member States, beneficiary states and/or regions concerned.

Getting results from the EU budget

An increasing part of our annual report has been reserved to report on our observations on performance of the EU budget on the question whether spending delivers value for money.

In chapter 3 we followed up on our analysis in the 2014 annual report with a focus on Horizon 2020 (research spending). We found that in Horizon 2020 although there have been improvements when compared to the Seventh Framework Programme, the Commission is still limited in its ability to monitor and report on the performance of the programme. The links between the Commission's 10 new political priorities and Europe 2020/Horizon 2020's strategic framework need further clarification. The lack of clarity may also be affecting other EU activities.

Chapter 6 and 7, our shared management chapters, include in the respective second parts the results of some performance related issues. Whereas chapter 3 has taken a high level view on performance, these parts are based on expanded work during our transaction testing. In cohesion we found that for a majority of projects both output and results indicators were defined. In case we could assess the output and results (not all projects were completed at the time of our audit) 68 % fully achieved and 28 % partially achieved the indicators set out for these projects.

For the 59 investment projects assessed as part of rural development transaction testing we found the following main performance issues:

- Insufficient evidence that costs are reasonable;
- Deficiencies in targeting measures and selecting projects including weak links to Europe 2020 targets.

We have made three recommendations on performance related issues, which the Commission has accepted

We recommend that the Commission:

1. assess the performance of work programmes and calls, by translating high-level objectives set out in the Horizon 2020 legislation into operational objectives at work programme level;
2. further clarify the links between the Europe 2020 strategy (2010-2020), the multi-annual financial framework (2014-2020) and the Commission priorities (2015-2019). The strategic planning process (2016-2020) could provide this opportunity; and
3. ensures consistent use of the terms 'input', 'output', 'result' and 'impact', in line with its better regulation guidelines.

Figure 7.14 – Example of a project which included non-essential items

In Italy (Campania), a municipality renewed a 1-kilometre footpath in a mountainous area for a cost of €441 000. During the procurement procedure, the municipality asked interested companies for proposals to make the investment more functional and environmentally friendly. The proposal by the company selected included additional items costing €80 000, over and above the cost of the work on the footpath. These additional items included a mountain bike worth €4 000, a panoramic spyglass costing €3 500 and a €10 000 donation to a local church.

Instead of restricting the contract to the needs of renovating the footpath, additional items were added which led to higher costs.

Commission reply:

The project in question, supported under the forestry measure 227 'Non-productive investments', is under investigation by the Region. The Regional Managing Authority has not paid the final balance of the project yet and intends to make a reduction as a result of the control carried out.

Concluding

Our 2015 annual report provides important input for the discussion by the discharge authorities. The reporting Members of the chapters will present their findings in the coming weeks to the budgetary control committee. The President and I present our annual report to ECOFIN Council meeting on 8 November and our Directors will assist the Council budget committee in preparation of their recommendation on the discharge.

The annual report provides an overall view on the accounts, the regularity of transactions underlying the accounts and increasingly a view on the performance of EU spending.



Lazaros S. Lazarou
Member for the Annual Report
Dean of Chamber V

The ECA introduced the 'Member for the annual report' as part of its implementation of the ECA reform in 2016. ECA's internal rules provide that the Member for the annual report *ensures consistency and adherence to the ECA's methodology of the underlying audit work for the statement of assurance.*

Lazaros S. Lazarou was also elected Dean of the newly created Chamber V. Chamber V is the coordinating chamber for the annual report, taking over the tasks of the former CEAD Chamber in examining audit planning and draft chapters for the annual report.

The thematic focus of Chamber V 'financing and administrating the Union' further combines some tasks previously performed by Chamber IV. Chamber V contributes to ECA's annual report by performing the audit work included in:

- chapter 1 – statement of assurance
- chapter 2 – budgetary and financial management
- chapter 3 – getting results from the EU budget
- chapter 4 – revenue
- chapter 9 – administration

Chambers I to IV audit and report on:

- I. natural resources (chapter 7) and security and citizenship (chapter 8 – part 2)
- II. cohesion (chapter 6)
- III. global Europe (chapter 8 – part 1)
- IV. competitiveness (chapter 5)

Developing the economic and monetary union

12

By Rosmarie Carotti

Eurogroup President Jeroen Dijsselbloem at the ECA on 10 October 2010 at the invitation of Alex Brenninkmeijer, ECA Member

Jeroen Dijsselbloem was elected Eurogroup President in 2013 and re-elected for a second term in 2015. Dijsselbloem is also currently Minister for Finance of the Netherlands and in the ECOFIN. Since February 2013 he has also served as Chair of the Board of Governors of the European Stability Mechanism.



Alex Brenninkmeijer, ECA Member; Jeroen Dijsselbloem, Eurogroup President

On 10th October 2016, Jeroen Dijsselbloem, President of the Eurogroup joined Alex Brenninkmeijer, ECA Member on stage at the ECA for a debate and audience Q&A session.

Stamina led by optimism

This is the challenge Jeroen Dijsselbloem sees for Europe. Europe recently set up a banking union and is still taking historical steps in institution building. The progress made is sometimes difficult or slow but extremely valuable for the economic stability and the lives of people.

Nations are always built by building institutions. The same goes for Europe and the Eurozone. Compared to the US, Europe is much faster in building its institutions. But doing it faster also brings a lot of risks. Europe found that out at a quite high price when it got into the financial crisis.

If the European project is to be successful, it needs strong institutions. All elements of legislation are decided in ECOFIN, the Economic and Financial Affairs Council. The Eurogroup, on the other

hand, is an intergovernmental body, an informal meeting of the Ministers of Finance of the euro countries. Major decisions were taken during the crisis in informal meetings. The Eurogroup ministers are also Governors of the ESM which is an effective institution in supporting countries and financing their needs. One day the Eurogroup and the ESM might well become full European institutions. Although Europe was built with a mix of intergovernmentalism and European institution-building.

Is the euro to blame?

Austerity has been the most debated and criticised element in the Eurogroup but the strategy has always been multiple: the monetary policy, the banking union, setting up a capital market, fiscal policy, and austerity.

Having built up so much private and public debt and having to save the banks which heavily increased sovereign debt, many countries did not have a choice in their fiscal policy. Those countries which were in real trouble were helped by the European institutions. Those countries which were still able to finance themselves were given time to reach the fiscal targets. And Europe has been very flexible on the rules.

Jeroen Dijsselbloem does not agree with the negative view of Joseph Stiglitz on the future of the euro, whose key argument is that the Eurozone has done very badly compared to the US since the start of the crisis, and therefore the euro is to blame.

Dijsselbloem counters that when looking at the GDP per capita; the Eurozone has done as good or as bad as the US. Second, to fully understand the economic problems in the Eurozone one has to go back to the years before the crisis. In many European countries the debt was building up; there was over-crediting in real estate and there were no buffers in the economies; the markets were closed and inflexible and the banks in a terrible state.

The euro is only partly to blame. Due to the euro, markets no longer differentiated between countries, so interest rates were low and money cheap everywhere. This was a dangerous situation and there is the same risk now. The difference is that in that period there were no European frameworks.

But we still need to do more structural reforms. At European level, the banking union needs to be finalised, the capital market set up. The banking union means similar rules for the banks, one supervisor, one single resolution framework and fund. The capital market union requires the change of some regulations on the capital market instruments. One of the key issues of creating more growth in the European countries is about getting the finance to those companies that have good plans.

Stiglitz makes the point that in a monetary union no single country can devalue its currency. This is of course true. The question is whether devaluating is a sound long-term policy. Other instruments will have to be used better. These instruments are about structural reforms, open markets, capital markets union.

Dijsselbloem's dream about Europe

Dijsselbloem is aware of the fact that Europe has disappointed people in the last few years, for example on security: job security, income security, terrorism, migration.

The whole issue of security needs to be the core issue for all of us in Europe. That means of course economic security but also managing borders and migration, as well as fighting terrorism. People need to feel that European cooperation has again added value for their everyday life security.

The most important hurdle at the moment is a political hurdle. If the European countries are too scared of populism Europe will become paralysed. That is Dijsselbloem's greatest concern. Rise of populism was also his fear when the Netherlands had the presidency of the Council in the first half of this year and he tried to push an agenda to complete the banking union, which of course requires national governments and institutions

to give up again a part of their sovereignty to European institutions. If Europe does not take the next steps, it will not be able to deliver the results in economic terms.

New convergence

Europe has managed to converge many of the new Member States economically and socially to the rest of Europe. But this process of convergence has stopped because of the crisis. That requires the Juncker Plan and the EFSI, as well as in the coming years, the setting up of a banking insurance system, so that all citizens in Europe can trust their banks. Steps in the longer term could be a monetary union by considering a fiscal capacity to the Eurozone.

Dijsselbloem is very much aware that populism also is about social injustice. The fear of unemployment. Benefits which go to international companies. These all push the critics of globalisation. That's why Europe needs to become more competitive, educate its people better and innovate.

The tax issue will become more and more international and European. That does not mean that all the taxes should be designed and implemented from the European level, but more international standards and frameworks for multinationals are needed to stop tax avoidance and tax fraud.

The role of the institutions and the ECA in accountability

Jeroen Dijsselbloem feels that sometimes, to make progress in European cooperation, it makes sense to act intergovernmentally or individually in European institutions.

Major European institutions are already in place, and the ECA is one of them. Everywhere the margins of the budget are the most important subject. And Dijsselbloem considers it a sound approach to strengthen the cooperation between the ECA and ECOFIN.

The ECA is very valuable when it comes to finding out if Europe is getting value for money. The Eurogroup has regular debates on the quality of

public spending and the ECA can add precious experience through its reports.

It is important that the ECA establishes how the money is spent and if it is spent correctly. This may lead to an error rate, but the only people that use that now are the euro sceptics. More transparency would allow to know where misspending has taken place, why, and what to do about it.

In response to the question how the ECA can acquire a bigger role in promoting transparency and accountability the intergovernmental part of European governance which it is not allowed to audit, Dijsselbloem answers that the added value for the ECA is at the moment very much in creating more relevance through transparency, a more in depth-look under the error rate and a look at the actual outcomes for society.



On 10th October 2016, Jeroen Dijsselbloem, President of the Eurogroup joined Alex Brenninkmeijer, ECA Member on stage at the ECA for a debate and audience Q&A session.

Special Report 21/2016: “EU pre-accession assistance for strengthening administrative capacity in the Western Balkans: A meta-audit”

By Dennis Wernerus, senior auditor and head of task



Dennis Wernerus

Introduction

All aspiring to join the EU, Albania, Bosnia and Herzegovina, Kosovo^{1*}, the former Yugoslav Republic of Macedonia, Montenegro and Serbia shape the Western Balkans, a region that inherited a bitter legacy of conflict, organised crime and corruption. In spite of its location between EU Member States, Western Balkan democracies are weak and their transition economies are still undergoing a slow transformation process.



From reading the Commission’s Progress Reports, it is clear that many obstacles hinder their way towards EU accession. Whilst one of them is a weak administrative capacity, strengthening this capacity remains a necessary condition to ensure better adherence to the rule of law and good governance. Against this background, the Instrument for Pre-Accession Assistance (IPA) is the EU’s sole instrument for structural assistance to the six

1 This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

Western Balkan countries. The IPA is also the only EU donor instrument preparing the Western Balkans to adopt the *acquis communautaire* and for the shock of absorbing billions of European Structural and Investment Funds (ESIF) that become available once EU accession becomes reality.

What is the *acquis communautaire*?

Existing EU principles, policies, laws, practices, obligations and objectives are often referred to in the EU institutions as the *acquis communautaire* or *acquis*. At the heart of accession negotiations, the *acquis* consists of 35 different accession chapters to be negotiated between the EU and each candidate country. For instance, chapter number 23 covers judiciary and fundamental rights and chapter number 24 covers justice, freedom and security.

What is a “meta-audit”? Definition, audit scope and criteria

Since 2007, the European Court of Auditors has accumulated a longstanding audit experience in the Western Balkans², hence the ECA’s wish to deliver a new audit product setting that experience in a broader, regional perspective. At the crossroads of a landscape review on a specific topic, the meta-audit led us to examine:

- ECA Special Reports, as well as numerous Commission audit, evaluation, expert and monitoring reports;
- 52 national projects and three regional programmes, including an assessment of their results.

We first examined existing audit and evaluation work and then proceeded with additional audit work to fill the remaining gaps in the audit scope (e.g. Albania, Bosnia and Herzegovina, the judiciary). Conducted from March 2015 until June 2016, the meta-audit addressed two main questions:

2 These reports can all be found on www.eca.europa.eu: CARDS (Special Report 5/2007), Western Balkans justice and home affairs (Special Report 12/2009), Croatia (Special Report 14/2011), Rule of law in Kosovo (Special Report 18/2012), Serbia (Special Report 19/2014), the former Yugoslav Republic of Macedonia (Special Report 11/2016) and Montenegro (Special Report 20/2016).

1. **Did the Commission manage well the IPA in the Western Balkans?**
2. **Did the IPA strengthen administrative capacity in the Western Balkans?**

We targeted both the Commission and the Western Balkan beneficiaries and covered the sectors of the rule of law (fundamental rights, justice and home affairs) and public administration reform during the 2007-2013 programming period (IPA I), taking into account the beginning of the 2014-2020 period (IPA II).

In the sector of the **rule of law**, we selected projects in the field of law enforcement, the fight against corruption and organised crime, as well as assistance to public prosecution, courts and civil society. In the **public administration reform** sector, we selected

technical assistance, training and public finance management projects, including tax collection, budgeting, procurement, public internal financial control, external audit and statistics.

The meta-audit applied INTOSAI’s ISSAI 3000 and included criteria derived from the IPA regulations, international law (for instance, with respect to donor coordination), as well as sound financial management (evaluation of project sustainability).

Strengths and weaknesses of the IPA in the Western Balkans: The main messages of report

We elaborated the conclusions and recommendations in our report in detail. Translated in terms of strengths and weaknesses, these were our key messages for the Commission:

STRENGTHS	WEAKNESSES
STRATEGY, MANAGEMENT	
Specific and measurable regional objectives	Objectives not always specific and measurable Indirect management: Absorption hampered
OUTPUTS AND RESULTS	
Delivered intended outputs Public administration reform: Managed to convert most project outputs into sustainable results	Rule of law: Failed to convert most project outputs into sustainable results No track record of successful judiciary cases Little funding for key rule of law areas: Public prosecution, fight against corruption, media freedom
CONDITIONALITY, MONITORING AND EVALUATION	
Effective in monitoring and evaluating	Did not systematically apply strict conditions and follow up on them Did not encourage the beneficiaries to use IPA as a learning tool in other parts of their administration
DONOR COORDINATION, REGIONAL COOPERATION, DIALOGUE	
Played a positive role in donor coordination Regional cooperation: Positive impact of the Western Balkans Investment Framework Some progress in the dialogue for public administration reform	No significant impact of Regional Cooperation Council and Regional School for Public Administration Limited progress in the dialogue for the rule of law

It should be stressed that project sustainability was first and foremost affected by the beneficiary countries' lack of political will to reform institutions, insufficient budget and staffing, as well as poor coordination.

The IPA scattering effect and the Commission's sector-based approach

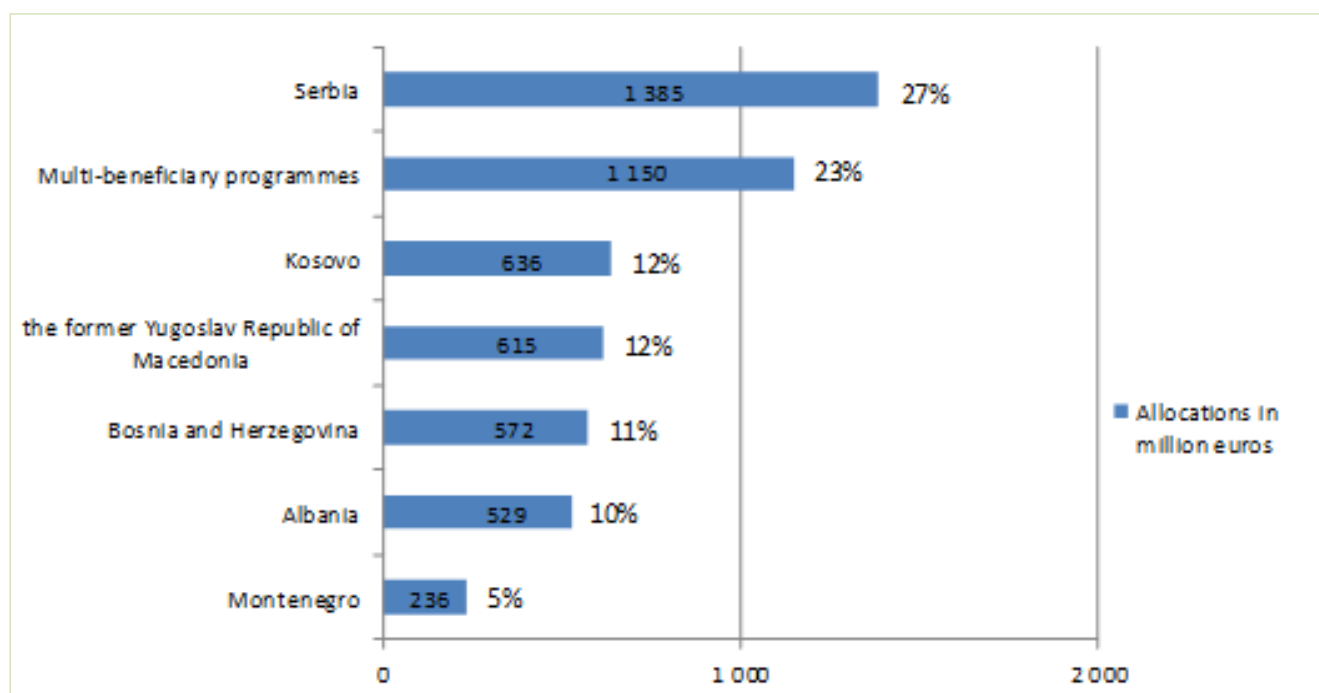
Under IPA I (2007-2013) and IPA II (2014-2020), the EU budget authority allocated to the Western Balkan countries more than five billion euro per seven-year period. This may sound like a lot, but needs to be put into the right context. In a similar fashion as Member States receiving ESIF funding, the IPA is distributed between, on the one hand, six countries, and on the other, regional EU programmes.

Nevertheless, we observed that the Commission's sector-based approach mitigated this risk. Since 2012, in order to better target resources, the Commission developed a sector-based approach, albeit its implementation for IPA was slow. This enhanced the "fundamentals first" approach. Under such an approach, accession negotiations should start and end with the so-called fundamental chapters, notably the "rule of law" chapters 23 and 24, as is currently the case of Montenegro and Serbia.

Impact of the meta-audit on planning of future EU assistance

The meta-audit has contributed to the Commission's 2017 mid-term evaluation of IPA

IPA I allocations to the Western Balkans (2007-2013)



Note: Percentages rounded up. Source: European Commission, 31 December 2015.

However, by comparison with the ESIF, the IPA has a much wider scope of assistance. Apart from agricultural development, as well as sectors that could be co-financed by the ESIF in any EU Member States (e.g. employment, energy, environment, transport), the IPA also financed reforms in justice and home affairs. Hence, the risk of an IPA scattering effect is inherently higher than in the ESIF.

It will hopefully stir some discussions and changes among the IPA beneficiaries. By taking a regional approach and focussing on the rule of law and public administration reform, we reinforced the importance of these areas of assistance. We also reinforced the messages conveyed by the ECA's previous performance audits conducted in the region. However, to reflect the full impact of the report, one should wait until its discussion at the CONT committee and the Council (foreseen in December).

Promoting the meta-audit

Our report received a good press coverage. Mr. Istvan Szabolcs Fazakas, the reporting member, disseminated the main audit messages to a wide audience in or nearby the Western Balkan region. As one of the first performance audits to have used the ECA’s new stakeholder management system (SMS), the report was quickly distributed to a large number of stakeholders, including MEPs, various press outlets and think-tanks. The following list is a snapshot of communication activities with the purpose to promote the audit to stakeholders:

15 September. During the “Danube Macro Region Business Week 2016” in Vienna, the report was presented during the conference topic “Juncker Invest vs. Finance, Competitiveness Danube Region, SME Finance, Global Connectivity”.

16 September. At the inter-parliamentary Conference “Oversight of IPA funds: Success and challenges”, organised in Belgrade by the European Parliament and the National Assembly of the Republic of Serbia, the report, introduced by Derek Vaughan (MEP), Vice-Chair of the CONT committee, was presented under the item “Parliamentary oversight of External Instruments, in particular IPA”. The conference was attended by lawmakers from the Western Balkans and MEPs from the European Parliament’s AFET, CONT and REGI committees.

23 September. The EU-Serbia Stabilisation and Association Parliamentary Committee (SAPC) meeting in Belgrade, co-chaired by Eduard Kukan (MEP) and the Speaker of the National Assembly of the Republic of Serbia, Vladimir Orlić, organised a working session. During that session, Igor Šoltes (MEP), Vice-Chair of the CONT committee and Radoslav Sretenović, Serbia’s Auditor General, commended the report to MEPs and Serbian lawmakers.

26 September. At the 12th conference of European Regions and Cities (IRE) in Salzburg, the report was presented during the conference topic “Sustainability in Europe’s regions and cities”.

12 October. As a special item of the 30th Board meeting of the Regional Cooperation Council (RCC) in Sarajevo, the report was presented to and discussed by senior officials of this international organisation. The meeting was attended by representatives from the EEAS, EU Member States, Turkey and the six Western Balkan countries. The same day, at the OHR, Szabolcs Fazakas met the High Representative, Valentin Inzko and the Principal Deputy High Representative, Bruce G. Berton, to discuss the meta-audit’s observations about Bosnia and Herzegovina.

13 October. At the EU delegation in Sarajevo, Szabolcs Fazakas and the EU Ambassador and EU Special Representative in Bosnia and Herzegovina, Lars-Gunnar Wigemark, issued media statements on the meta-audit and, beyond the report, the Ambassador emphasised the attachment of the EU to the rule of law. These statements were followed by presentations by the reporting Member and Dennis Wernerus, the head of task, to EU Member State diplomats, staff from international organisations, civil society representatives and journalists, as well as representatives of Bosnia and Herzegovina’s public administration. Many took the opportunity to ask questions during a dedicated Q&A session

Mr. Fazakas presenting the IPA meta-audit on the Western Balkans to the media at the EU delegation in Sarajevo, 13 October 2016.

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When the ECA meets the invitation of interested parties to participate in this kind of communication events, it can only contribute to strengthening the ECA's image and facilitate the dissemination of audit conclusions and recommendations to a wider audience.

Presentation of the IPA meta-audit at the EU delegation in Sarajevo. From left to right: Dennis Wernerus, Head of Task; Istvan Szabolcs Fazakas, ECA Reporting Member, H.E. Lars-Gunnar Wigemark, Head of the Delegation of the European Union to Bosnia and Herzegovina and European Union Special Representative in Bosnia and Herzegovina, Melvin Asin, Head of Cooperation at the EU delegation.

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*2nd annual EU Budget Focused on Results Conference
27 September 2016*

Performance Budgeting: A Discourse on EU Added Value

The background article of the speech of Alex Brenninkmeijer at the EU Budget Focused on Results Conference - Performance of the EU Budget and Implications for European Added Value¹

By Alex Brenninkmeijer

“Finally, we can participate in the global market!” This was the thought of many milk producers in the Netherlands after the quota was abolished in April, 2016. New farms were built, more cows were harvested, and milk production rose with 20%. But the market was not quite ready, to say the least. China resisted the additional imports, Russia was boycotted, and production was amped up in other countries as well. In response to the quails, qualms, and public outcries of milk-induced starvation, the European Union offered the Dutch dairy farmers 23 million euro (500 million for the entirety of the EU). This amount was then doubled by the Dutch government. This is not a one-off for the EU: it has subsidised the European dairy farms for over half a century. Nevertheless, the dairy sector keeps tumbling from one crisis into another. The question arises how effective the subsidies are in the first place and how they are being used by the farmers. One answer lies in the perverse incentives of the subsidies. The private sector, famous for its striving towards profitability and “natural” incentive towards viable production, did not feel the urge to innovate in order to survive thanks to the free money of the (European) government (FD, 2016).

“From reading the entries, it is clear that the UK has overnight become less attractive as a place to do science.” On a whole other level but no less important, a brain-drain of foreign workers from the United Kingdom is starting to take place. The fear of an actual exit out of the EU creates several risks for these, mainly, scientists. They are afraid of losing the necessary EU research funds from Horizon 2020, more difficult regulations to get around caused by

their non-English passport, and a fall in the pound makes it less attractive to earn income based on the British Pound. Not to mention the increased costs this creates for the research organisations, trying to attract foreign talent, import equipment from overseas, and the before-mentioned loss of EU funds, which amount to one billion pound per year. And we haven’t even mentioned all the restrictions in trade and falls of income this will imply for the British population as a whole (Financial Times, 2016).

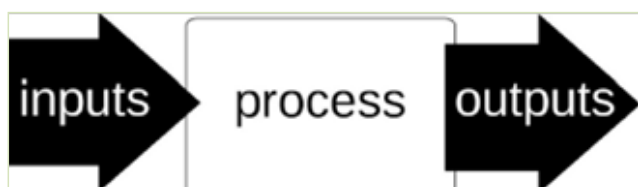
These examples show how a limited perspective on performance of the European budget can affect the state of the European Union. It also shows that it has increasingly become more important to be able to clearly show what and how the EU does to improve the situation in the Member States. A more absolute view of performance-based budgeting could have helped define the utility of such a dairy farm program. It could have clearly stated what the benefits and disadvantages are from being a member of the European Union. To counter this rather limited perspective, I propose the micro-meso-macro model for the performance-based budgeting structure.

In order to make feedback systems optimal, one cannot use a “one size fits all” approach. We therefore make a distinction in three levels of feedback: the aforementioned micro, meso and macro levels. Going from a micro to macro level, performance is more difficult to measure and to account for because the relationship between cause and effect becomes ever more complex. This obviously makes result-based accounting or performance budgeting difficult. From the European perspective, these levels cover the

¹ Many thanks to Gerben Muskee, who was a tremendous help while preparing for the presentation

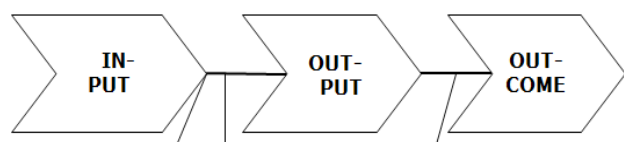
following concepts. The micro-level amounts to performance-based budgeting and performance audits for single projects in the EU. Here we can think of cases like VAT-fraud or rail freight transport. The meso-level is the one entailing cohesion funds and regional policies, like the agriculture subsidies and regional development policies. Not surprisingly, policy effectiveness and therefore effective spending of EU funds can be expected to be greatest when alignment exists between policy goals of European, national and regional governments. Policies or policy objectives need to be evaluated on a meso-level in order to counter contradicting objectives. A good example of ex-ante contradicting objectives on a purely national level in the Netherlands is the aim to reduce CO2 emissions; while at the same time high-speed zones of 130 km an hour were allowed by parliament. The macro-level is all about the EU-added value. In the books of the European Institutions, one can find several different definitions of EU added value, but we simply define it as the progress made in the country due to being a member of the European Union.

Preparatory to going deeper into the theory and practice of this model, it can be useful to quickly go over the reasons why performance-based budgeting was invented in the first place. Before the revolution of performance-based budgeting rolled across most of the civilised countries of the EU Member States, several problems with the classical way of budgeting had been identified. The budget was mainly characterised as opaque and unclear. This was all the more evident when outsiders got the idea into their head that it would be a good idea to read such a budget report. Besides this, the budget focused purely on the amount of money spent. It did not present anything about the results, and as financial efficiency is not the same as policy performance, the effectiveness of policies was judged only on meeting financial targets. The third problem with the traditional model of budgeting was the medium-term view. Budgets normally run from year to year, and thus barely have any overlap for policies which take several years to deploy. Meanwhile, there were no assessments on the short-term, which could have been helpful in case interim interventions were required.



Classical budgeting

In the late 1990s, after the first wave of New Public Management had died down, voices were raised that the budgeting system was in desperate need for further improvement. These voices converged in the performance-based budgeting system we have come to know today. The performance-based (or results-based) budgeting system is intended to give more clarity in the budget process by focusing on the outcome of policies. It necessitates more than only financial information (by the usage of key performance indicators), and looks both at the entire lifespan of a policy as well as allowing for short-term interventions.



Performance-based budgeting

Recent years have seen rise to a lot of backlash on the performance of performance-based budgeting. One of the problems was that key-performance indicators (KPI's) were used in large quantities, causing the audited organisations to revert to compliance behaviour, the polar opposite of what the performance-based budget (PBB) tries to achieve. These limitations will be further discussed in the following Micro section, after which an explanation of the problems and opportunities in the meso and macro section will follow.

Micro

At the micro level of evaluation, we focus on the performance-based budgeting system. This evaluation system was supposed to be the ultimate answer to the one of the most vital questions of public service providers: how to optimally allocate the resources by the government? The budget staff understandably welcomes a tool that enables them to distinguish between rewarding a powerful budget claim from just rewarding a powerful claimant. Politicians have also discovered the appeal of PBB as a way of promising more value for money to taxpayers or as a way to curtail public spending to find funds for their priorities. Last but not least, external stakeholders have exercised increasing pressure on the government to be accountable for results.

Austria is one example of a country in which a PBB system has been implemented as part of a comprehensive package of ambitious budget reforms. It uses a legally binding medium-term expenditure framework. In such a framework the flexibility for ministries is guaranteed by giving them the freedom to use the left-over cash from the current budget year in the following years. In other words, there is no earmarking taking place over the reserves. This is in contrast to what is currently happening in the EU. Member States use all the money they are assigned, because otherwise they will receive less from the budget in subsequent years. This causes the well-known phenomenon that money is looking for projects instead of projects competing for the money. In Austria, the use of this framework had very positive results: the so-called "December-fever" (spending the entire left-over budget at the end of the year) deemed to be contained.

However, several problems arose in the initial stage of the implementation of PBB. Maarten de Jong (2016) stated a top-down approach using uniform KPI matrices usually results in a framework resembling a prison with many empty cells. Even worse, it reinforces a compliance mentality leading to indicators of little relevance or even outright ridiculous ones. Many international implementations illustrate these dynamics of having indicators present for the sake of having indicators. Besides this, useful indicators for ministry "A" do not constitute meaningful indicators for ministry "B". In Austria, too, these and other issues were detected. The challenges during the implementation phase were the cultural shift towards results among politicians and administration employees, and the lack of focus on key issues (too many performance indicators). The performance indicators also were not sufficiently verifiable, comparable over time, and consistent between and within ministries. In the Netherlands, the above described issues seem to have been addressed in the recent years. A more selective use of performance indicators was implemented, where the number has been cut by 50%. Besides this, there is no longer a "one-size-fits-all" approach to the indicators; ministries now make use of different kind of indicators.

The Commission says the following about performance indicators: *"While there will always be*

scope for improvement, indicators are themselves subject to considerations of cost efficiency as there is a cost to establishing and monitoring indicators. Indicators which are retained in a common system must be operational, i.e. data must be realistically available." (ECA, 2015). In other words, the performance indicators must be realistic and the ECA requesting more information from the Commission by the hand of more and more common KPI's does not always result in better information exchange and more efficient use of this information. It might also result in more compliance than efficiency thinking, as was the case in the Netherlands before. The advice from De Jong (2016) is that KPI's should clearly be meant for indicating success-or-failure, so that the question is if a certain policy is successful or an intervention is required, can be quickly assessed.

Another important aspect of PBB which is subject to compliance focused audits is the use of non-financial information. Non-financial information has a different nature and cannot be audited in a similar way as financial information. A performance budget structure is impossible when the performance information is still subject to compliance criteria, as this creates an environment where the people who provide the non-financial information feel like they need to tick all the necessary information boxes. Already in 2004, the IOFEZ (the financial top of all the Dutch ministries) stated that there should be no official audit on the quality of the policy information. In the Netherlands, this problem has been recognised and is being dealt with. Maarten de Jong, in his latest presentation to the Commission, stated that in order to end up with reliable information that is useful for critical performance assessment, there is a need to be pragmatic. This means we need to allow methodological flexibility and make use of the already-available information.

Meso

At the meso-level of evaluation, we question the effectivity of the regional funds. Cohesion policy is implemented through programmes which run for the duration of the EU seven-year budget cycle. Before funds are disbursed, programmes need to meet several performance framework conditions. Progress of these funds will be measured against certain performance criteria, and further funds are contingent on the results on these performance

criteria (so-called performance reserves). The performance reserves are meant to function as an incentive for the funds to behave well, and are about 6% of the total allocation. Programs which underperform do not get an incentive, but they will still have used 94% of the allocated funds (or parts of it) in an incorrect way, which means a non-efficient use of taxpayer's money. This makes the performance reserve more of a Band-Aid than a means to eradicate the source of the lack of performance. This could be achieved by not just using performance assessments as a financial incentive but also by using critical (and preferably publicly available) assessment as leverage for demanding aggressive improvement plans if necessary.

In the 2014 Annual Report of the ECA more criticism on the performance reserves can be found. They state that the Commission is unable to reallocate money in between Member States, only within Member States. Funding for the most efficient projects is thus limited by national boundaries. Second, the Commission only reallocated funding due to the money not being spent instead of bad performances of projects. Indicators were often not performance indicators, but more like input and output indicators. In Latvia, for example, funding was released in order to stimulate employment and growth. 46 indicators were identified, of which 16 were input indicators and 30 were output indicators. Third, financial corrections by the Commission are mainly based on compliance and legality issues, not so much on performance indicators.

The goals of the Commission for the Horizon 2020 program are judged to be too broad and unclear. This means it will be difficult to evaluate if EU spending has contributed to fulfilling these objectives or if the objectives have been reached at all. As the Commission noted last year in its fourth evaluation report, for the 2007-2013 programming period *'it is not possible to single out what has been the exact contribution of each of the financial programmes in achieving Europe 2020 targets'*.

The Commission published its sixth evaluation report in June 2016 (on the financial year 2015). This includes more information on Europe 2020 than its predecessor: for example, it provides a

summary account of progress towards Europe 2020 targets. The report also includes several references regarding the individual programmes' contribution to the achievement of Europe 2020. These references, however, are limited. Besides this, the report explains too little why certain things exactly went wrong, why they went wrong, and how this can be improved in the future. The only solution noted is to increase spending in the areas which are not working well. They also provide too little context for the use of certain KPI's, which anyway mainly measure the quantity of inputs (number of students) instead of the quality of outcomes (level of education or the education resulting in better chances at the job market).

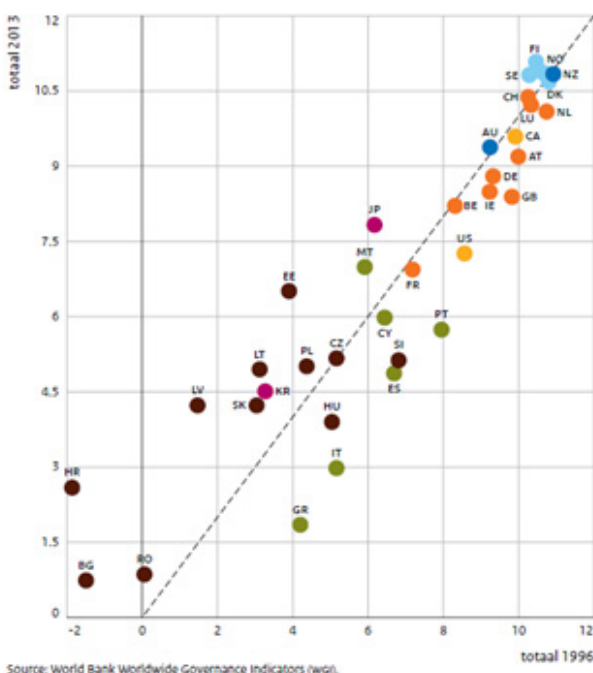
The main issue, however, is something which has already been stated in the 2012 Annual Report of the ECA: it is a challenge to obtain good qualitative results from schemes where funds are pre-allocated among Member States and where absorption of these funds is an implicit objective. The focus in evaluating budget spending still lays on inputs. For example, the amount of resources agreed to be spent in a particular Member State for the MFF remains fixed. The absorption rate of the funds is the main priority and the outcome of the spending is less relevant.

Macro

When looking at EU added-value on macro-level, one does not have to go into all the details of what every policy adds to the current state of a specific nation. We suggest that the EU added-value can simply be defined as the progress made in countries since the day these countries entered the European Union. This progress can be measured by looking at their state of public administration and economic progress. A quick look at Norway, a country which is paying in order to get access to all the necessary markets, would suggest that being a member of the EU is beneficial, even if one needs to pay for this. However, we are not here looking for quick answers, but we are in this for the long haul. We thus took a small sample of three countries, differing in a variety of variables: Poland, Greece, and the Netherlands; a fairly recent joiner, an apparent improvement-resistant country, and one of the founding members.

The quality of governance is an important factor of long-term economic growth (Aubyn, 2007). Good governance is defined as the “political and institutional processes and outcomes that are deemed necessary to achieve the goals of development” (United Nations, 2014). Effective governance requires clear missions, shared goals, well-coordinated collective action and measures, and it evaluates processes and results (Perry and Christensen, 2015).

Figure 7.2 Good governance scores, 1996 and 2013



The graph above shows the change in the public governance situation in all EU countries (and a few others). Greece is the worst-performing Southern European country, mainly because of the very limited control of corruption. Corruption is one of the strongest dangers to the credibility and functioning of governments. The Hertie study (2015) on public integrity has shown that organising effective independent feedback systems, such as the judiciary and audit bodies, form the basis of a successful strategy against corruption. Auditors add transparency to the system by auditing the legality and regularity of public finance and, ideally, reporting on the value for money gained by public investments.

Other aspects such as accountability and political stability also score rather poorly in Greece. The Netherlands have decreased slightly, but maintained their position in the top performing countries, while Poland has been able to

increase their government performance. The bad performance of Greece (and others like Italy and Portugal) can be explained, according to Galanti (2011), by looking at their public structures.

A crucial dimension for the quality of bureaucracy is its accountability, understood as mechanisms that hold bureaucrats responsible for their work. Empirical research in both developing and developed countries has shown the importance of transparency and accountability for the predictable and correct functioning of public administration, with particular emphasis being placed on the professional ethics of civil servants (Matheson et al., 2007). The existence of systems of performance evaluation and of specific incentives to induce a responsible attitude among civil servants is also a sign of bureaucratic quality (Galanti, 2011).

In Greece, the progress in the public administration is lacking due to the struggle to introduce performance-based management, partially due to the absence of precise data, and reform strategies lacking a strong evidence base which would justify, support – and quantify – effective and efficient policy decisions. Important reforms of the kind necessary to turn around economic performance and strengthen society need to be anchored in evidence. Ex ante impact assessments, whilst now compulsory in principle, are mostly of very poor quality, or not done at all. Ex post assessments, which would be instrumental in the monitoring and evaluation of regulatory initiatives, are virtually non-existent.

Another issue is that a combination of factors – a weak Centre of Government, the absence of basic data, the lack of evidence-based policy making and an undeveloped HR strategy – has created an environment conducive to rent seeking (OECD, 2012). In the Greek context, the framework conditions in the public administration provide especially ample opportunities for rent seeking, in which resources of the public administration are appropriated for political, economic or social advantage, without generating any added value. Legal formalism, for example, whilst originally intended to protect the administration against political interference and to secure its integrity, has become excessive to the point that it renders administrative/political processes opaque and complex, providing a screen for individual behaviours that undermine the common good.

In economical aspect, membership of the EU has brought nothing but good according to the Dutch

Bureau for Economic Policy Analysis. They state that membership of the EU in general leads to an increase in trade between two of its member states with about 34%. EU membership may also contribute to trade by inducing countries to improve the quality of their institutions. Trade increases by another 22% if institutions improve, yielding a total trade increase of 56%. Improved openness increases income by 37.5% according to their estimates. Adding a small direct effect of improved institutions on income, the total income effect of EU membership is 39% for the ten members who joined in 2004. This implies that EU membership, or its effect on trade and institutions, could lead to large economic gains for new member states (see also table below).

of the opportunities offered by EU membership. They owe this to their mobilisation and effective internal policy, but most of all to the initiative of Polish entrepreneurs who have made good use of Poland's presence on the single market. Other positive effects are the successful integration with EU markets, the effective use of EU funds and the significant decrease in unemployment and poverty rates. On the other hand, the effects of migration and the sometimes uneven distribution of benefits among citizens do not seem favourable. According to most Poles, however, the net result of EU membership is certainly positive. Public opinion polls confirm that the situation is far better than most Polish citizens expected in 2003.

Table 7.1 Internal Market effects for the EU and the Netherlands

Market integration area	EU25	Netherlands
Goods exports	8	18
Goods imports	8	12
Services exports ^a	5	5
Services imports ^a	5	6
Inward FDI stocks	17	18
Outward FDI stocks	11	15

Numbers are percentages of total goods exports, imports services trade etc for the EU and the Netherlands for the year 2005.

^a For services, the EU is EU15. For FDI, EU does not include these non-OECD countries: Baltic States, Cyprus, Malta, and Slovenia.

The Dutch numbers for goods are corrected for re-exports.

The Dutch Bureau for Economic Policy Analysis also calculated that the internal market and the membership of the EU of the past 65 years resulted in an extra month salary (about 1.500 to 2.200 euro). A quarter of which originates from accession to the Euro. This increase in income can be explained by a growth in trade, competition, specialisation, innovation, and economies of scale. Besides this, about 4 to 6 percent of GDP in the Netherlands can be ascribed to the current stage of internal market integration. In the table below, one can find the percentage increases for the Netherlands due to access to the internal market for imports and exports, separated by goods, services, and Foreign Direct Investments.

The Polish Ministry of Foreign Affairs wrote a report for their 10-year anniversary of being part of the EU. In this they look into the question how Poland changed thank to their EU membership. They find that, compared with other countries that joined the EU in 2004 and 2007, Poland has made the best use

Conclusion

In short, there are three aspects at the micro-level which limit the successful implementation of the PBB: no earmarking, an abundance of KPIs, and the lack of use of non-financial information. The fundamental issue at the meso-level is the rigid budget structure, dominated by national borders. EU funds will never be used most effectively if every Member State insists on receiving at least "their" part of the EU budget. This is partly inspired by the lack of earmarking, and partly by the lack of overarching European cohesion in the so ironically named Cohesion funds. Member States are afraid to receive less of the budget when they not use their full absorption rate and thus performance suffers. On macro-level, a lack of a performance budget-structure in Greece can be found, among other institutional weaknesses, as one of the causes for a slightly underperforming government. While on the other hand, Poland and the Netherlands seem to be profiting immensely from the open boundaries

and the subsequent, new business opportunities membership of the EU has to offer.

From this, we can conclude that in order to offer full transparency about full EU-added value, we need to broaden our scope of performance-based budgeting. A more complete use of performance-based budgeting includes breaking national boundaries when it comes to EU funding, spending in order to obtain results instead of fulfilling national absorption rates, and less of a compliance-oriented auditing structure which makes use of non-financial information to learn and improve and does not strive for a "one size fits all" KPI structure. Brexit-voters would have a clear view of the situation they are in now, dairy milk farmers would possibly not receive as much of the funds as they did. While this might benefit their own enterprise spirit, giving an incentive to innovate, this would have been an improvement for the EU citizens as well. They would see funding go to programmes which are making most of their money.

A more flexible, clever EU budget delivers more EU Added Value. The problem is that no one is able to present a clear, undisputed definition of EU Added Value. The meaning does not only change from year to year, but there are also many differing views. EU Added Value should be seen as a concept without a clear definition. It is something which changes throughout time, liable to the environment in which it stands. Like the circumstances continue to change, the discourse on what constitutes EU Added Value should continue to be held. Such an ongoing discourse would present the citizens of the European Union with a better, clearer story on what the *raison d'être* of the EU is, what the reason is why certain policies or projects are being made. It also makes clear that there is a strong need for more flexible use of the budget, as a changing definition of EU Added Value means a change in priorities in the budget. This enhanced need for flexibility can be achieved with a better use of performance-based budgeting.

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2016 European Court of Auditors Award Henrik Otbo



European Court of Auditors Award:
Research into Public Sector Auditing
4th edition

2016
A tribute to
Henrik Otbo
(1949-2015)
Former Member of the ECA

Deadline for applications:
15 December 2016
eca.europa.eu

 CURIA RATIONUM
EUROPEAN COURT OF AUDITORS

Presentation

In accordance with its mission and values, the European Court of Auditors (ECA) is committed to being at the forefront in developing public sector auditing, both in the EU and worldwide. The ECA has already been the subject of a number of publications of an empirical or scientific nature and it is keen to develop further active links with the scientific community.

For this reason the ECA has established in 2010 the "European Court of Auditors Award" for academic research linked to public audit and to the ECA's mission and values, in order to provide an incentive and recognition for research on public audit related issues.

Each edition will pay tribute to a person who has contributed through their work and example to the reputation of the ECA as a European institution.

The fourth edition of the ECA Award will pay tribute to the memory of Henrik Otbo, former Member of the ECA. Henrik Otbo was born on 14 November 1949 and was of Danish nationality. He dedicated his entire career to audit, and was Auditor General of Denmark from 1995 to 2012. He was Chairman of the INTOSAI Professional Standards Committee from 2004-2012, where he made a big contribution on developing professional audit standards

for supreme audit institutions. He became a Member of the European Court of Auditors on 1 March 2012 and was a Member of the CEAD Chamber "Coordination, evaluation, assurance and development", primarily responsible for Audit Development and Review. He made an important contribution in encouraging professional standards and good communication with stakeholders, both in his capacity as Auditor General and as a Member of the Court of Auditors. Henrik Otbo unexpectedly passed away on 1 February 2015.

The 2016 "European Court of Auditors Award – Henrik Otbo" will be governed by the following rules:

1. Subject

The award is addressed to European academics for their theses in the fields of theoretical and/or empirical studies related to public sector auditing, in particular within a European Union context. This covers, for example: audit methods and standards; financial, compliance and performance audit; audit of the EU finances; reporting methods; organizational and management aspects; internal audit and control; public accountability; single audit; audit ethics; evaluation and impact assessment; relations between the SAIs and national parliaments or EU governance.

2. Eligibility

The award is open to all postgraduates, who have written a Master's thesis or a PhD thesis. The viva examination must have taken place on or after 1st January 2012. Candidates eligible for applying for this ECA Award are to be nationals of the European Union or to have completed a thesis at a university of the European Union. The Master's or PhD thesis should not have been submitted for any previous edition of the ECA Awards.

3. Applications

Candidates shall submit by email in PDF format:

- a) A copy of their thesis;
- b) A short summary (maximum 5000 words) of the thesis;
- c) A justification of why they consider the thesis to be relevant for the award (maximum 1000 words);
- d) A brief letter of recommendation from a professor at the university to which the thesis was submitted. This reference should set out, in not more than 2000 words, the relevance of the thesis submitted for the award;
- e) Their curriculum vitae.

The thesis itself (a) may be in any of the official languages of the European Union, but all other supporting documentation referred to above (b to e) should be submitted in either English or French.

In addition to the documents presented with the application, the selection panel may request further information from applicants.

By submitting the thesis, the applicant gives the ECA the right to publish the thesis on its website in the event of the thesis being selected for the award. For all other purposes, the copyright remains with successful applicant.

4. Selection process

The ECA will submit the applications to a selection panel.

The selection panel will be composed of three experts from public audit organisations, current or former Members of the ECA and/or university professors from EU Member States.

The selection panel will independently assess the applications, identify the thesis, which is considered to merit the award and provide a brief justification of their choice.

The selection panel may propose not to confer the award if the submitted thesis does not meet an outstanding level of quality. It may also confer the award jointly and *ex aequo* to two applicants.

On a proposal of the selection panel, the Court may recognise the special merits of certain applicants.

The decision of the selection panel on the award winner shall be final and may not be challenged in the courts.

The ECA will provide the secretariat of the selection panel. The President of ECA may chair the selection panel's meeting without the right of vote.

5. Criteria

The fundamental criteria used in the assessment process shall be the originality, the innovative qualities, the significance and the overall quality of the applicant's contribution to the respective theme at the current time.

6. Award ceremony

Following a formal decision by the Court taking note of the selection panel's decision, the winner(s) will be invited to a public ceremony at the ECA to receive the award and to deliver a lecture of up to 30 minutes. This will take place in Luxembourg in spring of 2017, on a date to be established by the ECA. The travel expenses of the winner will be covered by ECA.

By accepting the award, the winner(s) agree(s) that all future publication of the thesis or of any part of the thesis shall make reference to the "2016 European Court of Auditors Award – Henrik Otbo".

7. Award's prize

The winner(s) will receive from the ECA a medal, an award certificate and a prize of 5.000 euros.

8. Deadline

Applications shall be submitted with all documentation referred to under 3 by 15 December 2016 and shall be addressed to:

Eca-award@eca.europa.eu

Applications arriving after this date at the ECA will not be admitted for the award selection procedure.

**Special report
N°24/2016****More efforts needed to raise awareness of and enforce compliance with State aid rules in cohesion policy**

Over the past several years the Court of Auditors found a significant level of non-compliance with State aid rules in cohesion policy. The Court of Auditors and the Commission detected infringements of State aid rules at a far higher rate than the Member States, pointing to a need for more awareness and continued Commission support. For the 2007-2013 programme period, the Commission's databases did not allow a proper analysis of State aid errors nor did its monitoring result in significant recovery of State aid.

The Commission has taken actions to simplify the applicable State aid legislation and to promote Member States' administrative capacity. Responsibility for implementation of State aid measures has been shifted to the Member States in the 2014-2020 programme period, which risks an increase in State aid errors.

This report was published on 4 October 2016 and is available on our website www.eca.europa.eu.

**Special Report
N°25/2016****The Land Parcel Identification System: a useful tool to determine the eligibility of agricultural land – but its management could be further improved**

A Land Parcel Identification System (LPIS) is an IT system based on photographs of agricultural parcels used to check payments made under the Common Agricultural Policy (CAP) of approximately 45.5 billion euro in 2015. We concluded that the LPIS is a useful tool for determining the eligibility of agricultural land but its management could be further improved. We identified some weaknesses in LPIS processes affecting the Member States' ability to reliably check the eligibility of land. We found that Member States had made progress in upgrading their LPISs to meet the 2014-2020 CAP requirements. However, LPISs had not yet been completely adapted for greening. The Commission's LPIS monitoring improved but did not focus enough on LPIS performance.

This report was published on 25 October 2016 and is available on our website www.eca.europa.eu.

**Special Report
N°26/2016****Making cross-compliance more effective and achieving simplification remains challenging**

Cross-compliance links EU farm subsidies of around 47 billion euro to farmers' compliance with basic rules in important areas (e.g. the environment and food safety). We examined whether the cross-compliance management and control system was effective and whether it can be further simplified. The report concludes that the information available did not allow the European Commission to adequately assess the effectiveness of cross-compliance, and that the system can still be further simplified. We make recommendations for improving the system.

This report was published on 27 October 2016 and is available on our website www.eca.europa.eu.

**Special report
N°27/2016****Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.**

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. Good governance is not just about relationships, it is about achieving results, and providing decision-makers with tools to do their job. In several areas, the Commission diverges from, or does not meet in full best practice set out in standards or put in place by the international and public bodies we selected as benchmarks. To continue to address the key risks the Commission will need further to strengthen the governance structure across the institution.

This report was published on 18 October 2016 and is available on our website www.eca.europa.eu.

The European Consumer Organisation: Evaluating TTIP and other EU policies for consumers

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By Rosmarie Carotti

Lecture by Monique Goyens, BEUC Director General, to ECA staff on 23 September 2016



BEUC acts as the umbrella group in Brussels for Member State consumer associations. Its main task is to represent them at European level and defend the interests of all European consumers. BEUC is listed in the transparency register set up by the European Commission and the European Parliament for interest representatives, to ensure that the European Union is "open to public scrutiny".

The EU budget 2014-2019 includes a budget line that allocates **EU operational grants to European consumer organisations**. The BEUC receives a grant (applied on a yearly basis) of €1,400,000. This grant is justified by the need to provide EU decision makers with a balanced feedback from various interest groups, and to fill the gap between the representation of interest groups linked to business and trade on the one hand, and not-for-profit organisations on the other.

Monique Goyens, BEUC Director General, explained the mission of BEUC. Firstly the BEUC provides intelligence to its member consumer associations, informing them what is going on in Brussels. The second mission is to try to influence European policy from a consumer perspective. Consumer policy is cross-cutting and the BEUC talks to the Commission about transport, food, digital agenda, financial services, sustainability and energy. Energy, in particular, will become crucial for consumers in the years to come, as digitalisation will completely change the energy market. And this change will have to be smart.

To sum up, BEUC provides intelligence to its members and tries to influence the policy-making

at the level of Commission, Council and Parliament. It also tries to influence the way Member States implement their policies and has an enforcement role by taking the complaints to the responsible Commission DGs.

The largest element of the BEUC's resources are the membership fees of its consumer organisations, and the income from subscriptions and paid services. BEUC fights for consumers' rights, be it safety instructions, nutrition information, legal guarantee, roaming costs or consumer redress (as in the recent Volkswagen case).

BEUC also considers that Google is abusing its dominant position in the search market. Open source is the principle of access to information and communication and it is important that the internet remains neutral.

In the digital area, the protection of personal data becomes even more important through big data and the digitalisation of all products. Commercial privacy is a huge topic as there is a tendency towards dynamic pricing. That means that on the basis of the profile of the client the product will be offered at a different price. And there is the risk of a link between commercial data and national security.

Models have changed but copyright rules are still from the last century. Geo-blocking in e-commerce is a common practice. Why should it not be possible to have access to a service just because it is offered beyond the border?

In the area of energy, there are new challenges. There is a new generation of prosumers: consumers who produce their own energy be it by wind or solar energy. This seems to have the best potential for increasing energy security. But for the moment there is no welcome culture for prosumers. In several countries they have to pay high fees to feed into the grid. At the same time, new smart appliances will be needed as consumers are asked more and more to cut their energy consumption.

A lot has been achieved in Europe in terms of financial services but a lot remains to be done, for

example, on cross-border payments and credit cards. This year's topic is contact-less payment. Also, saving for retirement has been so far neglected, but people will have to count more and more on their own savings. As the risks often are not correctly disclosed, the Commission has launched a consultation on the matter to which the BEUC has responded.

The BEUC is also very active on eco-design requirements and supports the European Commission in pushing the most environment-friendly solutions. BEUC also works on health-care and pharmaco-vigilance, medical devices and access to medicine. BEUC looks at all issues from the lens of the consumer and refrains from actively engaging in cases where the consumer consensus is weak, for example, in the case of genetically modified organisms (GMOs). It is the consumer who makes the choice and BEUC does not patronise them. The BEUC wants to be evidence-based and provide solutions.

Monique Goyens then referred to trade policy, in particular the Transatlantic Trade and Investment Partnership (TTIP) currently being negotiated between the EU and the US. From the consumer's perspective, trade is good because it creates competitive pressure. BEUC is therefore in favour of trade, but of TTIP it remains to be seen. The term TTIP is misleading, she says, as it is not a trade agreement per se but an agreement which has chapters that include trade. Other chapters, and those are the worrying ones, create a regulatory framework for a transatlantic single market.

To conclude with the words of Monique Goyens: we need a new model of economic governance but not according to trade rules.



From left to right: Maria Eulàlia Reverté i Casas, Dominiek Braet, Eduardo Ruiz-García, Alex Brenninkmeijer, James McCabe, Gailé Dagilienė, James Verity

The attention span of an average person today is about 8 seconds.

Question: How do we attract and retain somebody's attention?

Answer: By telling a story (i.e. empathy, suspense and surprise).

For some time now, the ECA has been reflecting on how to improve the way it communicates with the outside world, how to get closer to its readers and how to increase their interest in its activities.

In this context, writing in simple, clear language is very important. The ECA has therefore made a considerable effort to introduce and promote clear drafting by organising conferences, training courses and tailor-made workshops, producing guidelines on report-writing and instructions for auditors and translators, and distributing promotional material on the subject.

Against this backdrop, ECA Member Alex Brenninkmeijer, the Translation and Language Services Directorate and the Directorate of the Presidency organised the third edition of the Clear Language Event. This consisted of a conference on **“Storytelling: How to connect what you write”**, which took place on 5 October, and a workshop on **“Applying the fundamentals of storytelling to audit reporting”**, which took place the following day.

The Slovak presidency, which began in July this year, established better communication with the European public as one of its objectives. The Bratislava Declaration published after the informal summit of Heads of State and Government that took place on 16 September reads:

“We need to improve communication with each other – among Member States, with EU institutions, **but most importantly, with our citizens.** We should inject **more clarity** into our decisions. **Use clear and honest language.**”

It is generally acknowledged that we need to do more to raise awareness about the EU. The reasons for this are clear: for several years now, the EU has been in a state of crisis. Confidence in the EU's ability to improve people's lives is diminishing, as is any sense of solidarity or cohesion.

So what can we do to restore trust in the EU and its institutions? What should our reporting priorities be in the future? And how should we present our findings so that they are clearly understood?

While the ECA's reports are no doubt instructive for specialist readers, more needs to be done to inform and engage a broader public, from MEPs to MPs, journalists and EU citizens. The way we communicate should be more relevant and we should make a greater effort to use plainer language and a more approachable style.

The main question for the 2016 Clear Language Event was therefore: **How could we improve the**

way we connect with our readers? To answer this question, we interviewed three stakeholders with different mother tongues: Martina Dlabajová, a Czech Member of the European Parliament and rapporteur for the CONT Committee (our direct stakeholder); Cristina Botez, a Romanian university graduate now working in an embassy (a typical “EU citizen”); and Dr Arunas Dulkys, Head of Lithuania’s National Audit Office (one of the Court’s stakeholders and peers).

All three interviewees noted the expertise and quality of the ECA’s reports. They also stressed how important it was for them to be able to read the reports in their own language. Although they found the titles rather unwieldy, the conclusions and, more generally, the message of the ECA’s reports were praised for their clarity. One important observation was that our reports lack a positive tone.

The conference’s guest speakers were Dr James McCabe and Mr Dominiek Braet. Dr McCabe, also known as “the story doctor”, has spent the past 20 years working as a speaker and workshop leader for numerous international companies. He is a pioneer in the art of applying classical dramatic skills to complex business tasks, and using them to send the right messages to reach and captivate target audiences.

To restore faith in the EU and win the public over, said Dr McCabe, we need publications that not only persuade but also influence their readers. Achieving this requires a narrative vision and dramatic execution that extends beyond mere rhetoric.

Storytelling as a form of communication predates writing. By applying narrative skills to corporate content, today’s communicators can escape Hermann Ebbinghaus’s “forgetting curve” – which states that 60% of data consumed is forgotten within 48 hours – and reconnect with a much wider community.

In an age of interruption, where the average attention span has shrunk to about 8 seconds, in a society where the audience is not captive any more or – worse still – where there is no audience, how can we attract and engage the reader? The answer is: by telling a story.

Storytelling is the art of involvement, while rhetoric is the art of persuasion. Storytelling involves three elements: empathy, suspense and surprise, while rhetoric relies on authority, logic and proof. However, the two are not mutually exclusive, but

complement each other. Therefore, Dr McCabe tells us, the ECA does not need to change what it does, but merely enrich it! We should use stories to attract attention and, once we have it, move on to data and rhetoric.

There are three questions we should ask when crafting a story: how *tellable* is what we write? How *eventful* is it? But most of all, how *relatable* is our content? Stories not only have to be shareable, but must also make readers feel involved and possess the element of empathy mentioned above. It would seem that we score fairly low on involvement (we are not designed for dialogue). We are good at *making* sense, but less at *sharing* sense.

So, what could the ECA do to overcome this obstacle? Dr McCabe mentioned several possibilities: go visual, go audio, request reaction, connect, link and share! As we are living in an era of technological change, organisations have to create story visions, narrative blueprints and media geared to a digital world. Our thinking should be designed for communication.

Dominiek Braet, the second guest speaker, is a content strategist at Euroclear, a world-leading provider of post-trade services (B2B finance) headquartered in Brussels, holding assets of 27.5 trillion euro for financial institutions and employing 3 500 people. With over 20 years’ experience in making written communications effective and easy to read, he devised “Euroclear tone of voice” – a set of writing standards combining a move to plain language with other communication rules that make it easier for people to absorb information and increase client-friendliness.

After introducing us to the stories of auditor and reader, Dominiek Braet gave an impressive demonstration of how to transform a text in order to make it not only clearer but also more visually attractive. As we saw above, today’s readers do not have enough time to “digest” the huge quantities of information available to them. They do not *read* texts any more, but *go through* them: only if they find them interesting will they pause for thought. We should therefore design our content in such a way that the main messages stand out and immediately grab the reader’s attention.

Supporting Dr McCabe’s theory about the need for empathy, Dominiek Braet pointed out a simple but obvious fact: our texts may be well documented and informed, and contain thorough and relevant analysis, but they lack empathy. The impression we

have is of reading the minutes of a meeting: factual, accurate and objective, but unable to engage the reader emotionally. “What is the problem?” you might ask: audit is not about emotions, but about facts and figures, objective assessment and solid conclusions.

However, studies have shown that people are more inclined to react when they are **emotionally touched by a story than when faced with an objective situation**. So, if we want people to feel

involved, we need to create empathy and take them along on our audit journey.

In order to prove his point, Dominiek Braet took a passage from a Special Report dealing with humanitarian aid, and re-wrote it. What struck him in the ECA’s text was the absence of the word “people”. Indeed, in a text talking about a major humanitarian crisis, the word “people” does not appear even once.

Box 4

Example of a successful project: Rapid response to movement of populations (RRMP, n°15):

This project is one of the Commission’s main vehicles for emergency response related to movements of populations in the DRC. It is a recurring project and the Commission’s funding over the period 2011-2015 amounted to 31.5 million euros.

It provides multi-sectoral assistance, shelter, NFI (pots and pans, clothes, soap, etc.), water, sanitation, and health care in areas where no other humanitarian organisations are present. Interventions consist of the distribution of NFI and shelters, provision of water, sanitation and health care to the most vulnerable populations who have fled from armed groups or returnees that are just back in their villages but have nothing left. Interventions are usually limited to 3 months.

From May to December 2014, the project allowed assistance to be provided to approximately 1.3 million beneficiaries, mainly in North and South Kivu, Maniema and Province Orientale.

On average, 35 % of the interventions took place within 30 days of the movement of population alert compared to a target of 40 %.

Despite partial achievement of some initial targets, this project was judged successful considering the context in which it is implemented and the number of beneficiaries reached.

Example of a successful project: Rapid response to movement of populations (RRMP, No 15):

This recurring project is one of the Commission’s main channels to rapidly help large numbers of people who either:

- fled from armed groups
- returned to their villages but have nothing left

These most vulnerable people live in areas where no other humanitarian organisations are present. Under the project, people receive shelter, water, NFI (pots and pans, clothes, soap, etc.), sanitation, and health care. Interventions last up to 3 months.

Over a period of eight months, between May and December 2014:

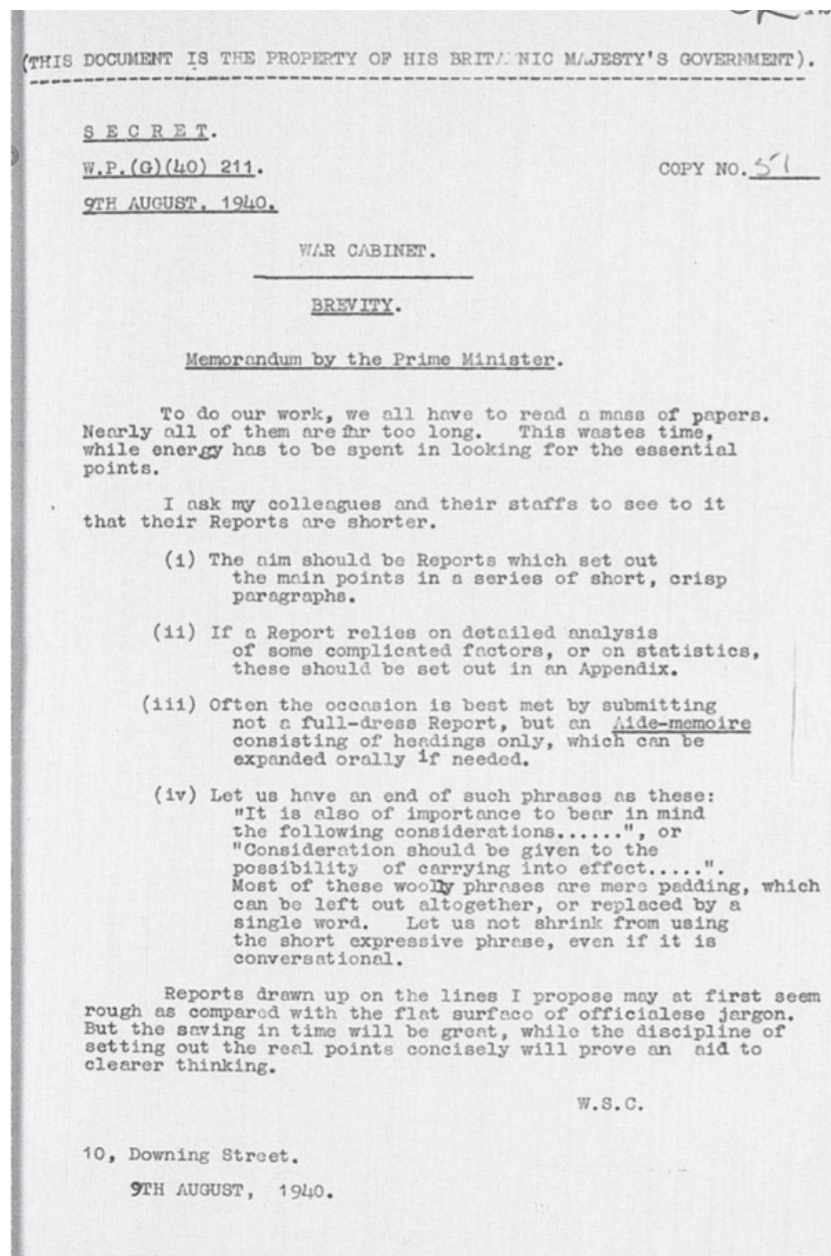
- about **1.3 million people** received help under the project, mainly in North and South Kivu, Maniema and Province Orientale
- 35% of interventions started within 30 days of the *movement of population alert* (target 40%)

Our conclusion: even though the target was not fully met, we judged this project as successful given the high number of people it reached in a difficult context.

Note - Commission’s funding 2011-2015: € 31.5 million

The result was impressive: although the information was retained, the structure, presentation, focus and wording of the text changed. The new version was not only shorter (152 v. 189 words) but also more focused and easier to follow: as such, it was better suited to today's readers.

By way of conclusion, Mr Braet shared a memo written by Winston Churchill in 1940. The note, which is self-explanatory, stresses the importance of clear drafting, a subject which is just as relevant today.



Memo written by Winston Churchill in 1940

The Bridge Forum Dialogue: Recovering from the crisis macroeconomic versus real economy and social dimensions

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By Rosmarie Carotti

Under the chairmanship of Dr Werner Hoyer, President of the European Investment Bank, Professor Euclid Tsakalotos, Minister of Finance of the Hellenic Republic, gave a lecture on 28 September 2016 at the EIB in Luxembourg.



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Professor Euclid Tsakalotos, Minister of Finance of the Hellenic Republic

Introduction

This lecture has to be seen against the background of two important recent decisions concerning Greece: the European Stability Mechanism (ESM) is providing Greece with billions of euros in fresh money after EU finance ministers agreed that the country has made progress in bringing its finances in order. The Greek government will however have to take a number of further actions in order to get further disbursements. Second, on 27 September 2016 the Greek Parliament has approved the transfer of state assets into a privatisation fund.

EIB President Hoyer stressed in his introduction that the EIB, in its role as the EU's bank, has been active for decades in Greece and maintains a dedicated investment team there. However investment-led recovery is weakening in Europe and so is the philosophical principle of solidarity.

While commercial banks have a tendency to lend money when times are good and turn their backs when times are not so good, the EIB has supported Greece in both the good and bad times, said Finance minister Euclid Tsakalotos. Greece is grateful for the EIB's past help and its long-term commitment for the future. New projects are being discussed which hopefully will come to fruition very quickly.

The macroeconomic prerequisites

Students used to learn that there was one monetary policy applied in a monetary union, but perhaps not a unified fiscal policy. The first is no longer true. A key characteristic of the post financial crisis in the euro area is that the single monetary policy has broken down. It is no longer the case that financial conditions are the same across the Union. The variation of interest rates across the euro area is considerable and country inflation rates are likewise showing dispersal. Greece this year at last has positive inflation, but suffered considerably. Other countries have similarly failed to benefit from the single market policy. Interest rates – and in particular the ECB's refinancing rates – are affected by the outgrowth of deposits, lack of access to international markets following fears of stability of certain financial institutions and rising spread in sovereign debt.

Uneven transmission of the single market policy across the euro area

According to Professor Euclid Tsakalotos one reason for the single market weaknesses are failures in the design of the ECB's policy of quantitative easing (QE), which includes the purchase of public and private sector assets along with government bonds. If the question is QE or not QE, Professor Euclid Tsakalotos is in favour of QE, but he wonders if there are other instruments that could be applied. QE might create asset bubbles, which have a detrimental effect on the real economy. Professor Euclid Tsakalotos suggests that northern countries invest more in infrastructure, and that funds made available for SMEs should be increased as they provide the backbone of the economic activity in the euro area. SMEs are generally excluded from the corporate bond market, this is where institutions like the EIB and EBRD have a clearer role to play.

Thirdly, compared to the FED, the ECB is over-concerned with risk.

Fiscal policy

There is discussion whether fiscal transfer is needed, or whether Europe should just concentrate on areas of non-monetary cooperation such as responding to the refugee crisis.

Professor Euclid Tsakalotos is of the opinion that in a fixed exchange system, with free capital movement, fiscal policy works. He objects to those who rely on capital markets and claim that no fiscal transfers are needed. He thinks that this misunderstands the structure of the European economy compared to the American economy. In Europe there are a large number of SMEs, and major cultural and legal differences between countries which hinder adjustments through the capital markets.

The social issue

If Europe does neither have a large budget nor any fiscal transfers, and if capital transfers do not work, there is only one instrument left in the monetary union and that is wages. It says that the whole burden of adjustment is paid by workers' wages. As a left-wing Greek economist and politician from the Syriza party, Professor Euclid Tsakalotos finds that if the Eurozone tells the working people that they are the shock-absorber, it will be very difficult for them to believe that the Eurozone will get out of the crisis.

Europe cannot grow as fast as before the crisis. That means that it cannot adhere to all the contracts made before the crisis. But which contract is it going to break? The contracts with creditors, with pensioners, with young people or people who need hospital care? In practice, everybody has to take a share of the pain. Why should the credit contract be singled out as the only one that actually holds?

The real economy is central to the whole argument of getting out of the crisis. Also, as the famous US economist Larry Summers says, there is currently a glut of savings. That means that there are now trillions of funds at zero or negative interest rates that are not being used proactively. But it is not just about identifying the financing source, but finding the right projects.

Greece

Professor Euclid Tsakalotos stressed that the revival of the real economy is necessary to solve social problems of the country. Greece is now returning to growth, which would have been even stronger

if there had not been the many negative political and economic crises in the rest of the world and uncertainty regarding the support programmes. As a result Greece has very few investors yet. In order to restore their confidence, it is therefore critical for the Greek economy that it gets a deal on debt.

Finance minister Euclid Tsakalotos believes there will be growth over the next couple of years, but his aim is that this growth would be sustained. Sustainable growth does not mean a return to a status quo ante. It means taking workers along, giving confidence to people, and giving them some access to decision-making process.

Economic development is the key and the Greek government needs to present its development strategy in the next few months. It must have clear priorities and should invest in small projects. Public administration needs to change. Challenges remain in the fiscal administration. Up to now rich people pay taxes on a voluntary basis only, and it is vital this is changed. Greece is already increasing the collectability of VAT.

More or less Europe?

The way forward is a better, fairer and more growth-oriented Europe. But Europe is in danger, warns Professor Euclid Tsakalotos. Europe has to begin a proper discussion on fiscal policy in the eurozone, on social fairness and it needs to develop a model which assures proper jobs, a sense of belonging and participation in society.



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European Investment Bank, Luxembourg

Finance minister Euclid Tsakalotos at the ECA

By Kamila Lepkowska, head of task

The day after the Bridge conference, Minister Tsakalotos visited the ECA for a meeting with our teams working on audits of the EU's intervention in Greece and other economic governance topics. The meeting was chaired by Zacharias Kolias – director responsible for performance audits in the field of economic governance - and attended by auditors and staff from the private offices of ECA Members Baudilio Tomé Muguruza and Nikolaos Milionis.

The meeting was an opportunity for the auditors to receive insightful feedback on issues identified through their work and to talk more generally about the design of EU support programmes for countries in difficulties. Given his double capacity as a politician and academic, it was extremely interesting to hear the perspective of Minister Tsakalotos. The exchange focused on the structural reforms implemented in Greece – both the way they have been sequenced and their interdependence with the process of fiscal adjustment. Following the minister's speech at the EIB, he also discussed in what ways the Greek Adjustment Programmes impacted on the long-term development prospects of the country. Furthermore, the Minister shared some observations regarding the granularity and scope of the programmes and their implications for the Greek legal system.



Vitor Caldeira, former ECA President; Professeur Euclid Tsakalotos, Minister of Finance of the Hellenic Republic

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For more information

European Court of Auditors
12, rue Alcide De Gasperi
1615 Luxembourg
LUXEMBOURG
eca-journal@eca.europa.eu

eca.europa.eu



@EUAuditorsECA



EUAuditorsECA