

# THE EUROPEAN COURT OF AUDITORS ROLE IN AUDITING CAP EXPENDITURE



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## NOTA BENE

The opinions and views expressed in this presentation are those of the authors and do not necessarily represent those of the European Court of Auditors.



# Mission of the European Court of Auditors



The mission of the European Court of Auditors is **independently** to audit the collection and spending of **European Union funds** and, by so doing, to evaluate the way in which the European institutions discharge these duties.

The Court examines whether financial operations have been properly recorded, **legally and regularly** executed and managed with an eye to **economy, efficiency and effectiveness**.

In this way, the Court aims to contribute to **improving the financial management** of European Union funds at all levels, so as to ensure maximum value for money for the citizens of the Union.

The Court makes the results of its work known through the **publication** of relevant, objective and timely **reports**.



# Values of the European Court of Auditors



The European Court of Auditors is committed to the following values :  
Independence, Integrity and Impartiality, Professionalism, Adding value,  
Excellence and efficiency

As regards adding value the Court

- ✓ Produces relevant, timely and clear, high-quality audit reports, based on sound criteria and robust evidence, which address the concerns of stakeholders and which are viewed by users as important and authoritative documents.
- ✓ Expresses opinions and provides recommendations that contribute to effective improvement in the management of the EU budget.
- ✓ Communicates openly and persuasively with the outside world on its role, methods and results, contributing to enhanced accountability in the management of EU funds.



# Historical background



**July 1975**

**Treaty of Brussels**, creation of the European Court of Auditors (ECA)

**October 1977**

**The ECA becomes operational**

**February 1992**

**Treaty of Maastricht**, the ECA becomes a Community Institution, introduction of the Statement of Assurance

**October 1997**

**Treaty of Amsterdam**, formal extension of the ECA's auditing powers to the second and third pillars of the EU and conferment of right to refer cases to the Court of Justice

**February 2001**

**Treaty of Nice**, one Member per Member State, introduction of system of chambers  
possibility – as part of the Statement of Assurance - of issuing specific assessments for each major area of Union activity

**December 2009**

**Treaty of Lisbon**, important changes to the institutional framework of the EU; however, no changes to the role and structure of the ECA



# Structure



## >> Court of 27 Members

One Member per Member State appointed for a six-year, renewable term of office

## >> President

Elected by the Members from amongst their number for a three-year, renewable term of office

## >> Secretary-General

Appointed by the Court for a six-year, renewable term of office

## >> Total number of staff in December 2009: 951

Audit units: 404, Members' Private Offices: 159, Administration: 227,  
Translation: 161



# Structure



## >> PRESIDENCY

Supervision of the performance of the Court's work. Relations with the Institutions of the EU, the SAIs and International audit organisations. Legal matters. Internal audit.

## >> AUDIT CHAMBERS

- I **Preservation and management of natural resources => in charge of CAP expenditure**
- II Structural policies, Transport and Energy
- III External actions
- IV Revenue, Research and Internal policies, and Institutions and bodies of the European Union

## >> CEAD CHAMBER

Coordination, Evaluation, Assurance and Development

## >> ADMINISTRATIVE COMMITTEE

(1 Member per Chamber) Administrative matters requiring a Court decision

## >> AUDIT COMMITTEE

(3 Members and 1 external expert)

The Court's internal auditor reports to the Audit Committee.

## >> SECRETARIAT-GENERAL

Human Resources, Information Technology, Finance and Support, Translation



# The Court's role



**Articles 285 and 287 of the Treaty on the Functioning of the EU (ex Articles 246 and 248 of the EC Treaty):**

- ✓ Carries out the Union's audit
- ✓ The external auditor of the EU
- ✓ The Court has no judicial powers
- ✓ A collegiate body which draws up reports and delivers opinions that have no binding force but are of help to those managing EU funds



# The Court's tasks



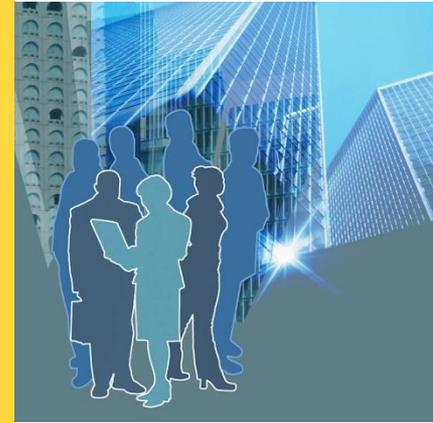
## Articles 285 and 287 of the Treaty on the Functioning of the EU (ex Articles 246 and 248 of the EC Treaty):

- ✓ Examine the accounts of all revenue and expenditure of the EU and of all bodies, offices or agencies set up by the EU
- ✓ Examine whether the financial management has been sound
- ✓ Provide a Statement of Assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions
- ✓ Deliver opinions at the request of one of the EU institutions
- ✓ Assist the European Parliament and the Council by presenting the reports needed for the discharge procedure



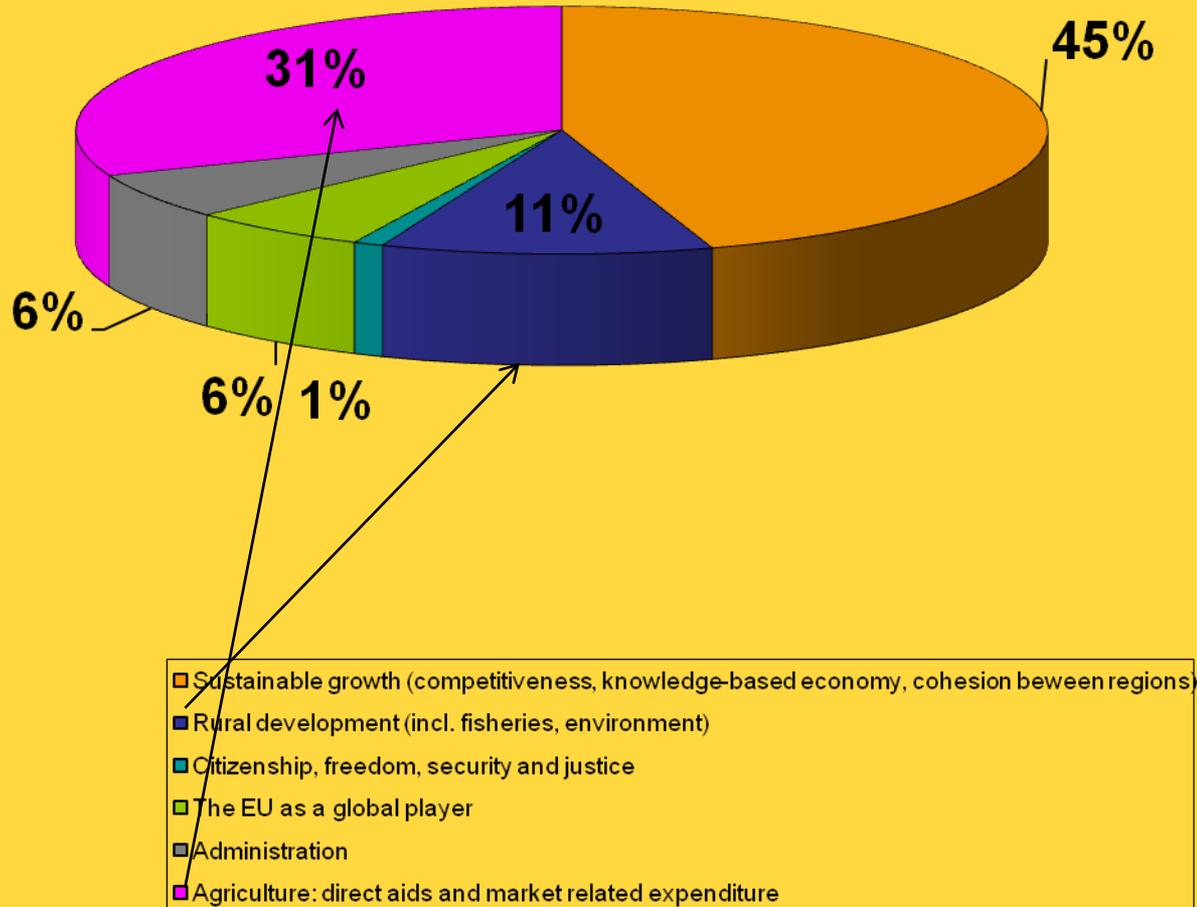
# Audit field of the European Court of Auditors

- ✓ All EU revenue and expenditure, whether included in the general budget or non-budget (e.g. borrowing and lending operations)
- ✓ the European Development Funds (EDFs)
- ✓ the bodies, offices and agencies set up by the EU
- ✓ the European Schools
- ✓ the European Central Bank (solely the operational efficiency of the management, not the accounts)



# 2010 General Budget – Expenditure

Total: 141,5 billion euro



# Audit field of Chamber I of the ECA



The audit field of Chamber I (Agriculture and Natural Resources) covers operational expenditure in the following sections of the EU general budget:

Title/Chapters	2010	Amount in Mio €
<b>Title 5</b>	<b>Agriculture and Rural Development</b>	<b>56 644</b>
0502	- Intervention in agricultural markets	4 101
0503	- Direct aids	39 273
0506	- International aspects of agriculture	6
0507	- Audit of agricultural expenditure	- 300
0508	- Policy strategy and coordination of policy area "agriculture"	36
0504	- Rural Development	13 396
0505	- Pre-accession measures	132
<b>Title 7</b> 0702-0705	<b>Environment</b>	<b>275</b>
<b>Title 11</b> 1102-1109	<b>Maritime Affairs and fisheries</b>	<b>767</b>
<b>Title 17</b> 1702-1704	<b>Health and Consumer Protection</b>	<b>431</b>
<b>TOTAL</b>		<b>58 117</b>



# Types of audit



- ✓ Financial audit: reliability of the accounts
- ✓ Financial/compliance audit: legality and regularity of underlying transactions
- ✓ Sound financial management audit or performance audit: value for money (an example of a performance audit concerning CAP expenditure (Leader programme) will be presented under Topic 5 - Possibility of performance audit of the CAP)



# Financial audit: Reliability of the accounts



- ✓ The objective is to obtain sufficient evidence to show that all transactions and all assets and liabilities have been **completely, correctly and accurately** entered in the accounts and presented in the financial statements
- ✓ As the **custodian** of public funds, the Commission must report accurately on their use
- ✓ An important element of **accountability** *vis-à-vis* the citizens of Europe



# Financial audit: Legality and regularity



- ✓ The objective is to obtain sufficient evidence to show that (revenue and) spending operations underlying the EU budget have been carried out in accordance with **contractual and legal requirements** and are **correctly and accurately** calculated
- ✓ Chapter 3 (former Chapter 5) of the Court's Annual Report 2009 presents a specific assessment of Agriculture and Natural Resources
- ✓ The Court decided to present a specific assessment for Rural Development as from DAS 2011
- ✓ Audit approach applied to CAP expenditure will be presented in Topic 3

# Sound financial management audit

## Performance audit



The objective is to obtain sufficient evidence to show that European Union funds have been used **economically, efficiently and effectively**, either by maximising output for a given input or through minimising costs, for a defined objective.

Concerning Chamber I, the most recent published Special Reports are :

N°14/2009 : Have the management instruments applied to the market in milk and milk products achieved their main objectives?

N°11/2009 : Sustainability and Commission's management of the LIFE-Nature projects

N° 10/2009 : Information provision and promotion measures for agricultural products

N° 6/2009 : European Union food aid for deprived persons: an assessment of the objectives, the means and the methods employed

The following reports are expected to be published in the second half of 2010 :

Clearance of accounts procedure

Has the reform of the sugar market achieved its main objectives ?

Implementation of the Leader approach for Rural Development

Specific measures for agriculture in outermost regions and the small Aegean islands



# Audit approach



The **direct substantive testing audit approach** examines transactions directly to provide an often statistically based conclusion as to their legality and regularity or value for money

The **systems-analysis-based audit approach** examines the effectiveness of the internal control systems set up to ensure that EU funds are properly spent. If the **tests** show that the systems are operating effectively, the amount of direct substantive testing of transactions can be reduced

**Advantage:** this approach may be more efficient: it allows systems' weaknesses to be identified and recommendations for improvement to be made



# Audit approach



- ✓ Auditing involves obtaining **direct evidence** on the audit subject. As not all transactions can be audited every year, statistical sampling is often used to provide representative evidence.
- ✓ When carrying out its audits, the Court pays particular attention to the **internal control systems** set up to ensure that EU funds are properly spent.
- ✓ If the **tests** show that the systems are operating effectively, the amount of direct substantive testing of transactions can be reduced.
- ✓ **Weaknesses** identified in the systems result in recommendations for improvement which actively contribute to improving financial management.

# Audit approach

✓ As regards the audit approach applied to the CAP financial audits (DAS) the work is equally based on the following two principal sources of information:

- examination of the operation of the supervisory and control systems;
- substantive testing of a sample of transactions.

✓ Details on the audit approach concerning system audits and substantive testing (audits on-the-spot) will be presented under Topic 3 (Techniques and methods used in CAP Audit) of this seminar



# ECA Publications

- ✓ **Annual Report:** Statement of Assurance, observations on the implementation of the EU budget (=> **specific Chapter for Agriculture and Natural Resources**)
- ✓ **Annual Report on the European Development Funds**
- ✓ **Special Annual Reports:** on EU bodies, offices and agencies
- ✓ **Special Reports:** on specific budgetary areas or management topics
- ✓ **Opinions:** on certain draft legislation at the request of another institution; an opinion is mandatory for financial and anti-fraud legislation

