Issue no. 15

AUDIT NEWSLETTER • December 2006

For the Working Groups of the Presidents of the Supreme Audit Institutions of European Union Acceding and Candidate Countries, Albania & the European Court of Auditors
Produced by SIGMA and the European Court of Auditors

SIGMA
Support for Improvement in Governance and Management
A joint initiative of the OECD and the European Union, principally financed by the EU

European Court of Auditors

Introduction

This issue of the Audit Newsletter is mainly dedicated to the report on the 13th and final Audit Methods and Manuals Workshop which took place in Estonia. However, there are other equally important articles dealing with structural funds, the work of the Twinning Expert Group, the progress made with the Hungarian-Lithuanian-Slovakian audit activity as well as data on IT security in SAIs.

We hope that you enjoy this 15th edition of the Audit Newsletter.

13TH Audit Methods and Manuals Workshop

The 13th Audit Methods and Manuals Workshop took place in Laulasmaa, Estonia from 13-15 September 2006 and was hosted by the National Audit Office of Estonia (Riigikontroll).

The Workshop dealt with "*Lessons learnt during the accession in developing audit methods and manuals*". It was very different from the other Workshops in that it drew on the experiences from the 12 previous Workshops, and each of the 17 participating SAIs had the opportunity to share the accounts of their progress in certain selected audit fields.

We would like to thank Mr. Mihkel Oviir, Auditor General of the National Audit Office of Estonia, for kindly hosting the excellent Workshop, as well as Mr. Rein Soord and his efficient international relations team for ensuring the smooth running of this very effective and well received Workshop.

Mr. Mihkel Oviir, Auditor General of the NAO of Estonia and Host of the 13th Audit Methods and Manuals Workshop

All the best from Sigma

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THE AUDIT OF STRUCTURAL FUNDS

Structural Funds: an ambitious objective

Structural Funds have been assigned an ambitious objective by the EC Treaty : *strengthening economic and social cohesion, in particular reducing disparities between the levels of development of the various regions*. The European Union's (EU) cohesion policy provides funding to complement national actions. From 2007 to 2013, €308 billion will be made available by the EU to support regional growth and stimulate job creation.

The unique modalities of EU Cohesion Policy

The so-called "shared management" arrangements make Member States responsible in the first instance, under the Commission's scrutiny, for the management, monitoring and day-to-day financial control of the Funds. However, the Commission has final responsibility for the implementation of the EU budget. The consequent shuttling of responsibilities backwards and forwards results in a lack of full accountability.

There is no direct relation between the allocation of funds to a Member State and its structural gaps, identification of priorities, ability to put forward suitable projects or institutional capacity to manage operations. Nor there is a common methodology on impact evaluation. The monitoring and supervision systems are not able to identify the results and outputs of actions in a given region. Absorption of the funds is itself an implicit objective, which potentially conflicts with the economic, efficient and effective use of the expenditure.

The EU legislative and administrative framework, coupled with national rules and systems, remains considerable and increases the number of potential "errors". The multiplication of "certifications" at different levels has not yet led to the required assurance on the implementation of the expenditure. Moreover, the requirements set for the management of the funds and their monitoring are mainly a function of legality and regularity issues, rather than "value for money" concerns.

What does all this imply for external audit ?

The tensions inherent in the Structural Funds represent a risk to the proper use of the funds. The audit of legality/regularity has attracted many of the resources available at the Commission, in the Member States and, indeed, at the European Court of Auditors. The Commission has a strategic objective to achieve an "unqualified" Statement of Assurance from the European Court of Auditors.

The impact of a "qualified" Statement of Assurance should not be exaggerated. It has not prevented the European Parliament from granting the discharge to the Commission for the last ten years. In any event, a "clean" opinion from the European Court of Auditors would not mean that the funds have been employed according to "value for money" principles. The success of the programmes is to be measured by their degree of contribution to the policy objectives, and not just through the legality and regularity of the expenditure.

This calls for more emphasis on "value for money" audits. Auditors do not necessarily need to come at the end of the process. In particular, at the beginning of a programming period audits may examine the relevance of the strategy to identified needs, the coherence of the objectives of programmes and the measurement of likely impacts against wider social, environmental and economic needs.

It is in the common interest of the Supreme Audit Institutions and the European Court of Auditors to encourage policy actors towards better use of funds. This is especially the case for the EU Cohesion Policy which relies on co-financed expenditure. After all, whether the funds are paid from the national budget or from the EU budget, the source remains the EU taxpayer.

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