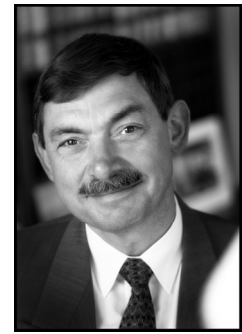


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Auditor General

Henrik Otbo

The European Court of Auditors' audit missions – an opportunity to co-operate on EU financial management in EU Member States

The importance of co-operation within the European Union

I am pleased to be given this opportunity to address the readers of the Kontrola Panstwowa and I would like to take this opportunity to share my thoughts on the importance of co-operation on EU financial management on a number of levels within the EU structure. It is evident to focus on co-operation when speaking of the European Union since co-operation is indeed the essence of the great European project. My point of departure is the co-operation which takes place in the EU Contact Committee which meets once a year – in 2006 the meeting takes place in Warsaw on December 11-12. The EU Contact Committee consists of the heads of the EU Member States' National Audit Institution (EU NAIs) and the President of the European Court of Auditors (the ECA). The co-operation within the context of the EU Contact Committee is encouraged in the declaration 18 of the Nice Treaty:

“The Conference invites the Court of Auditors and the national audit institutions to improve the framework and conditions for cooperation between them, while maintaining the autonomy of each. To that end, the President of the Court of Auditors may set up a contact committee with the chairmen of the national audit institutions”.

The EU Contact Committee has actually been established since 1960 and it has proven to be a well-functioning and stimulating body of co-operation on EU financial management. The framework of the EU Contact Committee provides me and my colleagues with an opportunity to exchange knowledge and experiences on the audit of EU funds and other EU related issues. The EU Contact Committee also initiates and coordinates the conduct of audit activities of common interest in the field of EU financial management. During the years, the EU Contact Committee has established different working groups with the purpose of examining subjects of mutual interest or developing new audit methods to be used in the EU field. At the moment the EU Contact Committee has 8 working groups. Each working group deals with a specific area:

- Task Force on Co-operation
- Working Group on National SAI Reports on EU Financial Management
- Working Group on Procurement
- Working Group on Structural Funds
- Working Group on Value Added Tax
- Expert Group on Audit Quality
- Joint Working Group on Audit Activities
- Agricultural Network Working Group

In addition to the co-operation within the EU Contact Committee, the individual members of the EU Contact Committee co-operate on a bilateral level. Both the co-operation within the framework of the EU Contact Committee as well as the individual relations between the members of the EU Contact Committee is valuable for the EU NAIs. The EU NAIs share the challenge of auditing EU funds in their respective EU countries. This common task underlines the importance of the co-operation between the EU NAIs. Given the fact that that there is only one National Audit Institution in each country there are no other institutions on national level to compare directly with. Basically, the EU NAIs and the ECA are bound together in a community, that offers a variety of challenges – challenges we can assist each other to comprehend and act upon. One of the challenges which we are facing at the moment is to navigate in a field of different expectations regarding the exact structure of responsibilities for the audit of the EU budget.

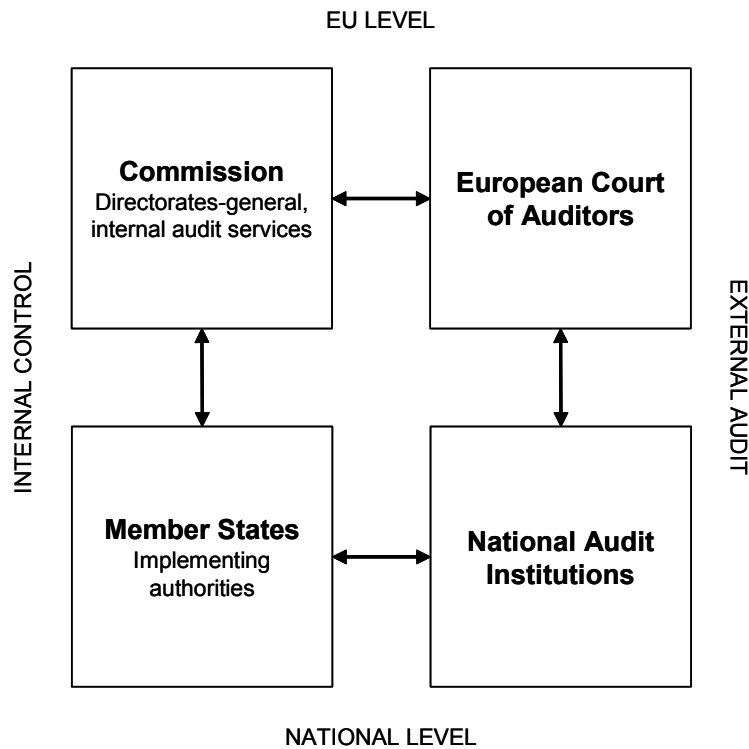
Co-operation on the administration and audit of the EU-budget

Auditing the EU budget implies quite another set of responsibilities than administering the EU budget. Both tasks however, involve institutions at both national and EU level and depend on well-functioning co-operative structures between these institutions.

The administration of the EU budget is itself a study into the art of co-operation. The EU annual budget for 2006 amounts to euros 112 billion. The budget enables the EU to fund its activities, the programmes and projects within the various policies through a yearly budgetary procedure. More than 80 % of the EU budget is managed by the Commission and the EU Member States' or acceding Member States' authorities in partnership. These areas are mainly: agriculture, structural means and pre-accession aid. The concept of "partnership" or "shared management" means that the Commission retains the overall responsibility for the budget, and that the Member States are responsible for the daily administration and control of the schemes following rules determined by the Commission. The shared management-system thus involves many administrative layers from the Commission to Member States' central, regional and local level all the way to the final beneficiary. The amount of money involved as well as the element of shared management brings a certain degree of complexity into the administration of the EU budget. The overall responsibility for the implementation of the budget however, lies with the Commission.

As far as auditing the EU budget there are a number of different players with different roles and responsibilities. Figure 1 gives an overview of the responsibility structure for the internal control and the external audit of the EU budget and is inspired of figure 1 in The European Court of Auditors' Opinion no. 2, 2004.

Figure 1: Overview of internal control and external audit of the EU budget



Taking into account the amount of money, the many levels of administration, the number of people and the 25 countries involved, it seems clear that co-operation is a must. In order for the complex system to work there must be 4 well-functioning co-operative structures among the bodies in figure 1:

Level 1. Co-operation between the Commission and the Member States' implementing authorities

Level 2. Co-operation between the Commission and the ECA

Level 3. Co-operation between the Member States' implementing authorities and the NAIs

Level 4. Co-operation between the European Court of Auditors and the NAIs.

The co-operation between the European Court of Auditors and the National Audit Institutions

I would like to address the co-operation on level 4 between the EU NAIs and the ECA, more precisely – the co-operation in relation to the ECA audit missions in the EU Member States. Due to the decentralized structure of the management of the EU budget, the ECA has many audit missions in the EU Member States. The many audit missions give the ECA

and the EU NAIs an opportunity to co-operate. The legal framework for ECA audit missions is laid down in the Nice Treaty article 248, paragraph 1 which determines that

“the Court of Auditors shall examine the accounts of all revenue and expenditure of the Community”.

The role of the EU Member States in the audit process is defined in article 248, paragraph 3 which stipulates that

“In the Member States the audit shall be carried out in liaison with national audit bodies or, if these do not have the necessary powers, with the competent national departments. The Court of Auditors and the national audit bodies of the Member States shall cooperate in a spirit of trust while maintaining their independence. These bodies or departments shall inform the Court of Auditors whether they intend to take part in the audit”.

The Treaty does not require a NAI to audit the use of EU funds, or EU institutions to determine the nature, form or content of the reports that the NAI produces and submits under its national legislation. The Treaty may be interpreted in the sense that it is possible for the ECA to rely on work already carried out by the NAI and that it is possible for the NAIs to engage in closer co-operation with the ECA e.g. in relation to ECA audit missions in the EU Member States. It is important to note that both the NAIs and the ECA are independent institutions reporting under their respective legislative framework.

The National Audit Office of Denmark (NAOD) takes an interest in the ECA audits in Denmark. It is NAOD-policy to ask the ECA that all correspondence regarding the ECA audit missions in Denmark go through the NAOD. Furthermore, the NAOD always accepts the invitation to participate in the ECA audit missions. The NAOD has a number of internal guidelines regarding the ECA audit missions, which among other things implies that the NAOD takes part in the opening meetings as well as in the final meetings and usually also in the actual audit. In relation to the ECA audit missions, the role of the NAOD is not being the actual auditor. However, there are several other reasons why the NAOD finds it

important to participate in the ECA audit missions. The keywords here are: to observe and to facilitate.

- To observe the ECA audit missions: The participation of the NAOD in the ECA audit missions makes it possible for the NAOD to have its own viewpoints of the audit in question. This means that the NAOD is able to make its own assessment and conclusion of the audit, and that the NAOD is well-prepared when the ECA forwards the sector letter. Observing the ECA audit missions also gives the NAOD valuable input in relation to the NAOD's own audits of EU funds in Denmark.
- To facilitate the ECA audit missions: It is the responsibility of the client to make sure that the audit can be carried out efficiently. In the NAOD, we believe that potential misunderstandings and cultural or language barriers between the ECA and the auditee are more easily overcome with the intervention of a mediator.

From 2000 to 2006 (future audits in 2006 included), the ECA has announced 31 audit missions in Denmark. The NAOD has participated in all of them. These 31 experiences give a fairly good background for us to conclude that ECA audits in Denmark generally work well – right from the announcement of audit missions to the actual audits missions and finally to the remarks from the ECA.

Some of the ECA audits regard EU funds which are not administered by the Danish implementing authorities following the principle of shared management but by the Commission alone, i.e. funds for research and development. One might ask why the NAOD wants to know about EU funds that are not administered by the Danish implementing authorities – is that relevant for our work? The answer is: “yes, indeed it is very relevant”. The NAOD takes an interest in all ECA audits taking place in Denmark, even if the EU funds in question are not related to the Danish state budget. We have to be able to inform the Danish Parliament on any kind of irregularities regarding EU funds taking place in Denmark. The ECA audit missions provide us with knowledge and insight and with that also responsibility. We accept this responsibility as we believe that it follows naturally from being the National Audit Institution in Denmark

Co-operation in a wider perspective – the political level

With this article it has been my aim to share some thoughts on the importance of co-operation on EU financial management between relevant institutions within the EU structure. I have pointed to the co-operation between the members of the EU Contact Committee, between the different administrative levels of the EU management system and between the responsible parties for the external audit of EU funds. I have pointed to the importance, which the Danish Office places on the co-operation with the ECA – especially in relation to ECA audit missions in Denmark.

What I have not touched upon yet is the co-operation relating to the political level within the EU structure. Please find below an elaboration of figure 1, which presented 4 levels of co-operation regarding the control of the EU budget on page 4. 2 additional levels of co-operation have been added in figure 2.

Figure 2: Overview of internal control, external audit and final control and discharge of the EU budget

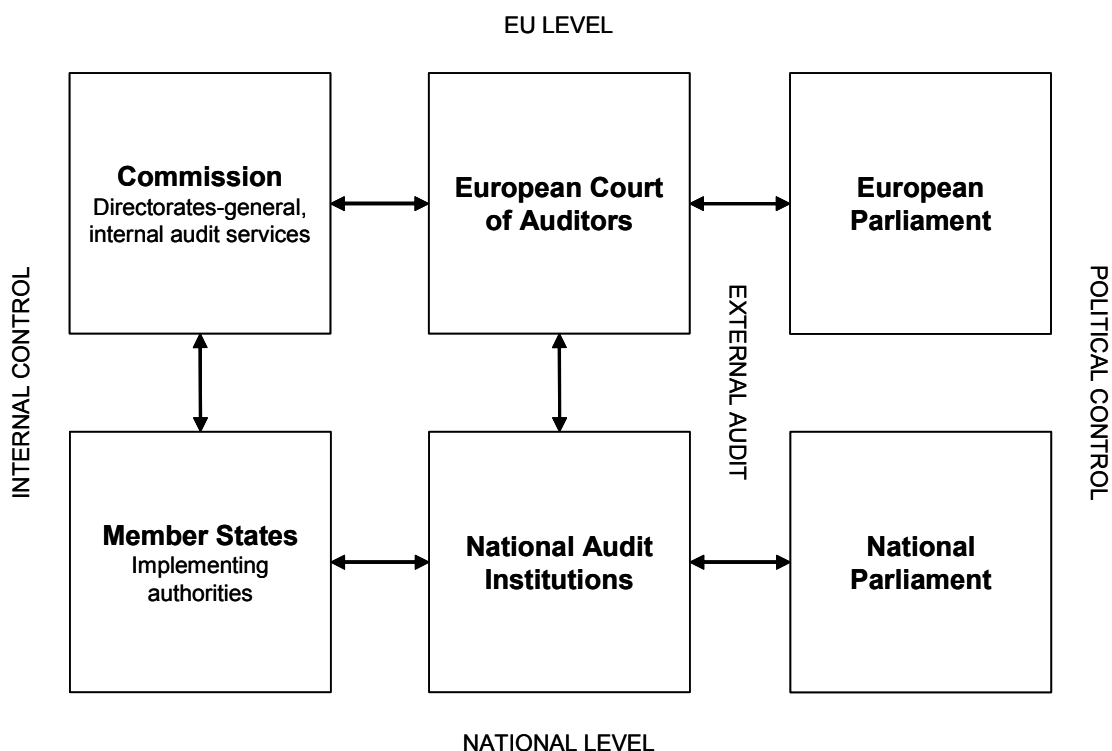


Figure 2 gives an oversight of not only the internal control and the external audit, but the figure also points to the final control and discharge of the budget, which is performed by the political level – respectively by the European Parliament on the EU level and by the

national Parliaments on the national level. With these additional levels I wish to underline the importance of well-functioning co-operative structures between the level of external audit and the level of political control:

Level 5: co-operation between the ECA and the European Parliament on the EU level.

Level 6: co-operation between the NAIs and the national Parliaments on the national level.

One might also argue that there is or should be a co-operation on the level of political control between the national Parliaments and the European Parliament.

The main task for the NAOD is to ensure the representatives of the Danish taxpayers insight into and control with public expenditure – including EU-funds. In practice this means that the NAOD reports all significant results of the audits performed to the Danish Parliament's Public Accounts Committee (PAC). The Danish PAC is responsible for the final control and discharge of the Danish budget and for this reason, it is essential that the NAOD engages in the best possible co-operation with the Danish PAC and that we are attentive to their views and interests. I believe the same is relevant on the EU level where the final control and discharge of the EU budget is performed by the European Parliament – the only body to represent the EU taxpayers. For that reason it is essential that the ECA has the best possible co-operation with the European Parliament. All of us being members of this large and complex community there is no other way to make it work than to rely on the forces of co-operation.