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Institution Series: European Court of Auditors

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The European Court of Auditors (the Court) is the external audit institution of the European Union (EU) and acts as its “financial conscience”. Founded in 1977 in Luxembourg, the Court is independent from other EU institutions. Its task is to keep track of EU funds, making sure that the Commission manages them properly. Based on the Court’s Annual Report, the European Parliament gives the Commission final discharge for the execution of every annual budget.

Overview

Established on 22 July 1975 by the Treaty of Brussels, the Court started operating as an external Community audit body in October 1977. Since the signing of the Treaty of Maastricht, the Court has been recognised as one of the five institutions of the European Communities.

Main Role

The Court independently audits the collection and spending of EU funds by the institutions, European Development Funds and other EU agencies and bodies. Furthermore, the Court investigates whether financial operations have been properly recorded, legally and regularly executed and managed to ensure efficiency and transparency.

The Court’s role, as external auditor, is to assess the financial management of the EU’s budget as a whole. In practice, this means that the Court examines the paperwork of any organisation handling EU income or expenditure. Any irregularities are reported to the European Parliament and Council. The Court’s audit responsibilities have been extended to Community funds managed by outside bodies and by the European Investment Bank.

One of the Court’s most important functions is to assist the budgetary authority (European Parliament and Council) by issuing an Annual Report on the previous financial year. The content of this report plays an important role in the Parliament’s decision whether or not to approve the Commission’s handling of the budget. If approved, the Court sends the Council and Parliament a statement of assurance that European taxpayers’ money was judiciously spent. Before the EU’s financial regulations are adopted, the Court gives its opinion. It may comment at any time on specific issues or give an opinion at the request of an EU institution. Other important Court reports include opinions, Specific Annual Reports on EU bodies, and reports on subjects of particular interest.

Court Officials

Members

According to the European Community Treaty, the Court consists of one Member from every Member State. These Members are appointed by the Council, after consultation with the European Parliament based on nominations by every Member State. Members of the Court are chosen on the basis of having worked for an auditing institution in their country of origin or their specific qualifications. They work full-time for the Court for a six-year, renewable term.

The Members sit as a college that is the main decision-making body of the Court. The annual work programme sets out the tasks that every Member is responsible for implementing. Specialised audit staff assists them. For the sake of efficiency, “chambers” (with a limited number of Members each) can be set up to adopt certain types of reports or opinions.

A President, whom the Members elect from amongst their number, heads the Court. The President’s term of office is three years and is renewable. His/her role is that of *primus inter pares*: first among equals. S/he has to chair Court meetings and ensure that decisions are implemented and that all the institution’s activities are properly carried out. Furthermore, the President is responsible for the legal service and the

external relations department, regarding the discharge authority, other EU institutions and the supreme audit institutions of the Member and beneficiary States.

Secretary-General

The Secretary-General, the most senior official in the institution, is appointed by the Court. His/her duties include managing the Court's staff and administration, such as professional training and translation service (a unit for every official language) and the Court's secretariat.

Human Resources

The entire Court staff comprises about 760 auditors, translators and administrative support. The Court employs nationals from all the Member States to ensure a balanced spread of linguistic and professional skills. Staff come from a wide range of backgrounds: from the public and private sectors, e.g. accountancy practice, internal and external audit, law and economics. The recruitment policy follows the general principles and employment conditions of the EU institutions, and its workforce comprises both permanent civil servants and staff on temporary contracts.

Internal Organisation

The Court operates as a collegiate body with its Members adopting audit reports and opinions by majority vote. Meetings are not open to the public. The Court draws up its own rules of procedure governing its internal operation, which are then submitted to the Council for approval.

The auditors are divided into audit groups that are sub-divided into various specialised units, which cover the different areas of the budget. The Court assigns each Member to a group, which is chaired by a "Dean". Members of the group elect the Dean from amongst their number for a renewable, two year term. The Dean's role is to ensure the smooth running of the group and its divisions in agreement with all the Members of that group.

The Administrative Committee, composed of Members representing the audit groups, takes care of administrative matters requiring a formal decision by the Court. Since 2004, the Court may adopt documents without discussion based on a two-third decision of the Members of an audit group or the Administrative Committee.

The Court also appoints an Internal Auditor, who reports to the Audit Committee (comprised of three Members of the Court and an external expert).

The Budget

The Court is financed from the general budget of the EU. The budget amounted to about 95 million euros in 2004, representing 0.1% of the total expenditure of the EU and 1.6% of the total administrative expenditure of the EU institutions and bodies. At the Court's behest, an external audit firm audits its financial statements. These results are communicated to the European Parliament and the Council and published in the Official Journal and on the Court's website.

Audit Scope

The Maastricht Treaty requires the Court to audit the implementation of the general budget of the EU, the European Development Funds, as well as the financial statements of the EU bodies and agencies. The scope of audits ranges from financial statements to detailed examinations of specific budgetary areas or management topics. These audit tasks are divided into:

- Recurrent audit tasks, which have to be done every year, such as the financial statements of the EU, the European Development Funds, and of all other bodies and agencies set up by the EU; and
- Selected audit tasks, in which the Court selects budgetary areas or management topics of specific interest for detailed audit.

The Court works independently of national governments and other EU institutions. The Court is free to decide on topics, what it wants to audit and when it wants to present its observations and publicise findings. The Court selects a number of budgetary and management topics every year, but does not audit every budgetary area in depth every year. As a basis for identifying audit tasks, the Court regularly undertakes a risk analysis of the entire audit field, considering issues such as known problems or weaknesses, financial significance and findings of previous audits. The Court ranks these potential tasks by priority based on the results of the risk analysis and the need to ensure a balanced coverage of the budgetary area. In addition, specific concerns of the European Parliament, the Council and the public at large are also considered before the final selection of audit tasks is made.

The Court's audit policies are largely based on INTOSAI Auditing Standards and International Standards on Auditing – issued by the International Federation of Accountants – that have been adapted to suit the EU context. Under the Maastricht Treaty, the Court has right of

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access to any information it requires to carry out its tasks. The auditors do on-the-spot checks at the various EU institutions at the premises of bodies or legal persons managing funds on behalf of the EU, including all levels of administration dealing with EU funds.

Audit Procedure

Every audit is carried out in three main stages: planning, testing and reporting.

Planning

The Court's work programme is planned on a multi-annual and annual basis. The multi-annual plan entails defining and updating its strategy, whereas the annual plan details specific tasks for that year.

The auditors prepare an audit-planning memorandum for every audit undertaken. This memorandum sets out the audit scope, approach and audit objectives, as well as how these are to be achieved in the most efficient and cost-effective way. The memorandum is complemented by an audit programme that sets out the audit testing needed in detail. The audit planning memoranda and audit programmes are submitted for approval to the audit group responsible for that task.

Testing

Testing is done to obtain sufficient, relevant and reliable audit evidence that will allow the auditors to reach conclusions on the audit objectives. Teams of two or three collect evidence in accordance with the audit programme within the EU institutions and Member and beneficiary States. Audit evidence can be obtained in various ways: examining key supporting documentation, physical inspection, or enquiry. Methods for examining and testing systems and transactions include various techniques, such as statistical sampling. In some cases, external experts are engaged to provide specialist knowledge.

Reporting

Audit reports communicate the results of the Court's work to the auditee (European Commission or other EU institution concerned), the discharge authority and the general public. After completion of the audit work, the auditors draw up a draft audit report ("the Court's preliminary observations"), which contains audit observations and findings, conclusions on the audit objectives and recommendations for improvement.

The draft audit report is examined first by the audit group and then submitted for approval by the Court. The report is then sent to the auditee in the context of a bilateral discussion procedure. The auditee checks the report and sends an official reply – taking into account the reactions of the Member States – to the Court. The Court either maintains its original observations or changes them to correct any errors or ambiguities, depending on the reply. Finally, the auditee's reply is published with the audit report. At the end of the bilateral discussion procedure, the Court formally adopts the definitive audit report.

Benefits for the EU Citizen

As the Court of Auditors is the final conscience of the EU, it stands to reason that citizens expect to see and reap the benefits of its existence. Both political scrutiny and close media attention – especially to cases of fraud or misuse – necessitate the European Court of Auditors' role as an external auditor of the European Union. As such, the Court plays a vital role:

- By publishing its reports, the Court helps promote transparency and accountability in the management of EU funds;
- Through its audit work, the Court helps ensure that EU funds are collected and used in accordance with the applicable rules and regulations;
- Its audit observations and recommendations help managers of EU funds improve their performance and contribute towards improving sound financial management; and
- Its audit reports serve as a basis for the democratic scrutiny of the utilisation of EU funds by the European Parliament and the Council.

Although not infallible, the Court strives to uphold its mandate by providing the best possible service in an expanding European Union. 4

Fraud & OLAF

Every year, the Court reports on the management of the budget, any irregularities and suspected fraud. The European Commission and the Member States are primarily responsible for preventing, detecting and investigating errors and irregularities. The Court's task is to assess how well they have fulfilled their duty, then suggest improvements. When fraud, corruption or any illegal activity is identified, the matter is communicated to the European Anti-Fraud Office (OLAF). OLAF, which has special independent status, was given responsibility for conducting detailed administrative anti-fraud investigations, investigating prosecutions in Member and beneficiary States, and recovering EU funds.

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