



EUROPEAN COURT OF AUDITORS

SPEECH

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Speech by Vítor Caldeira, President of the European Court of Auditors

Budgetary control of the European Financial Stability Facility (EFSF), the European Financial Stabilisation Mechanism (EFSM) and the European Stability Mechanism (ESM)

Hearing of the Committee on Budgetary Control of the European Parliament

24 April 2012

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Mr Chairman,

Members of the Committee,

Distinguished guest speakers

I would like to thank the Committee, and in particular the *rapporteur* Mrs Iliana Ivanova, for arranging this important hearing and for giving me the opportunity to contribute.

The initiative of the Committee to hold this hearing on the objectives, operation and oversight of the financial assistance mechanisms created as a response to the ongoing economic and financial crisis, is very much welcomed by the European Court of Auditors. It provides a valuable opportunity to raise awareness of the issues involved, to benefit from each others' experience and to further understanding and debate.

Since the start of the current crisis - and particularly in relation to the creation of the response mechanisms - the European Court of Auditors has repeatedly raised attention to the key principles to be respected whenever public funds are at stake. This started with a letter to Mr Van Rompuy in November 2010 and continued with a Position Paper of the European Court of Auditors in May 2011. In October of the same year, the Supreme Audit Institutions of the Member States alongside the ECA, jointly reiterated and further developed these principles in a Contact Committee Statement.

I think it is worth briefly recalling these three key principles. They are:

- **Transparency**, in the form of reliable and timely information on actual or intended use of public funds, and the risks to which they are exposed;
- **Accountability**, meaning the public scrutiny of the operations and holding to account decision-makers and those responsible for managing the processes; and
- **Public audit**, to provide assurance and information on the use of public funds and the risks to which they are exposed.

We at the European Court of Auditors are ready to play our part in achieving these principles in the context of the mechanisms that are the subject of today's hearing.

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From the perspective of the ECA's audit rights and obligations, we can distinguish three different types of instrument. They have common elements, as well as some significant differences.

I will start with the **EFSM and the Balance of Payment assistance**, both of which operate under the umbrella of the EU Treaty. These instruments are managed and administered by the European Commission and guaranteed by the European Union. The financial flows move through the EU budget and the operations, assets and liabilities are disclosed in the EU's financial statements. The European Court of Auditors has full audit rights, as well as the obligation to audit the operations within its annual statement of assurance exercise. This has been the case since 2008 when the Balance of Payments assistance was first used. As the first EFSM support was disbursed in 2011, it will be covered by the currently ongoing DAS exercise.

The annual financial and compliance audit responsibility is supplemented by the right to do selected compliance and performance audits on the quality of financial management, made public in the form of special reports. As you can see from our work programme for 2012, we intend to start an audit of the Balance of Payments assistance and the EFSM at the end of the year. I of course do not need to remind this Committee that our resources are limited, and we therefore need to select between different audit priorities over the European Union budget and the European Development Funds. This is based on risk, financial importance, political and public interest and other factors helping us to maximise the impact of our resources.

The second type of operations from an ECA audit rights perspective consists of the **Greek Loan Facility and the EFSF**. Here, the ECA's audit rights do not derive from the EU Treaty – at least not directly – and neither do these instruments implicate the EU budget. In practice they are bilateral arrangements between euro-area countries and put at risk national funds. However, the European Commission and the European Central Bank EU have key roles in operating these instruments, such as setting lending conditions and monitoring compliance.

As the European Court of Auditor has the responsibility to audit the use of administrative spending of the EU institutions (as well as the operational efficiency of the ECB) we have the possibility to audit the management of these instruments by these Institutions. As I mentioned a few moments ago, this will be considered alongside our other priorities.

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Finally, there is the **ESM** – the newest of the mechanisms, and intended as a permanent successor to the temporary EFSM and EFSF arrangements (although if, and how, any takeover will take place has not yet been made clear). We will hear more about the audit arrangements for the ESM in a moment from my colleague from the German Bundesrechnungshof.

From the perspective of the European Court of Auditors I would like to emphasise that we do not have the right to audit the ESM as an institution. However, I am pleased to say that the ECA will have the right to nominate one of the five members of the Board of Auditors – an important addition to the ESM's accountability arrangements introduced in the revised ESM Treaty – alongside two members to be nominated by the SAIs of ESM countries on a rotational basis. Each member of the Board of Auditors will act independently in his or her personal capacity and not as a representative of the institutions nominating them.

Also, and similar to the EFSF, the European Commission will be playing a key role in preparing and operating the economic adjustment programmes. This will include making a preliminary risk assessment, negotiating conditionality and monitoring compliance. And again, the ECA will consider auditing the Commission's role as appropriate and useful.

When looking at the overall challenges of the economic and financial crisis, we should not forget that the **mechanisms are part of a broader policy response**. I would like to emphasise the collection of measures put in place, or currently being finalised, in order to improve EU economic governance. This includes the European Semester, on which we held an important debate at last year's Contact Committee meeting, the six-pack of regulations and more recently the fiscal compact. There is also the reform of the financial market regulation and supervision, an issue the ECA will tackle in an audit to be started in the coming months. Since for all these measures, the reliability of statistics is of great importance, the Court is currently in the final stages of completing an audit of the effectiveness of Eurostat in improving the process for producing reliable and credible European statistics.

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In a wider sense and **beyond its explicit audit rights and obligations**, the ECA as an EU institution has a general responsibility to use its unique position and perspective to contribute to ensuring effective public accountability, transparency and audit of the public funds put at stake to meet the EU's objectives. Therefore, we will continue to monitor the developments and contribute as necessary. We will do so not only in the field of the fiscal support mechanisms we are currently discussing, but also by monitoring all other developments in EU economic governance in terms of the transparency, accountability and audit implications, and by assessing the entire landscape of EU accountability and audit arrangements.

To come back to the ESM, in my view, the emerging public external audit arrangements of the ESM are largely promising, given the intergovernmental nature of the mechanism and particularly as compared to its main predecessor, the EFSF. The *raison d'être* of the ESM is to protect the integrity of the Euro area and with it one of the pillars of economic and monetary union, a core EU policy.

Before finishing, I would like to take this opportunity to highlight the success of the recent **co-operation between national state audit institutions and the European Court of Auditors**, both in the context of the Contact Committee and between the euro-area countries. Working together we have been able to prepare common positions which have had a significant impact on the revised ESM Treaty, and just recently on the draft by-laws. I would particularly like to thank my German colleagues for their leadership in this respect. The resulting positive outcome has demonstrated the effectiveness of close co-operation for the common purpose of promoting adequate levels of public scrutiny and accountability, which this Committee rightly considers as a key priority and is the driver behind today's hearing.

On behalf of the European Court of Auditors, allow me to assure you, Mr Chairman and the members of the Committee, that we are committed to assisting this Committee in furthering transparency, accountability and public audit whenever public funds are put at stake to reach EU policy objectives.

Thank you for your kind attention.

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