



**EUROPEAN COURT OF AUDITORS**

**SPEECH**

**Luxembourg, 30 May 2012  
ECA/25/12**

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

**Hearing of the Committee on Budgetary Control of the  
European Parliament**

**30 May 2012**

**“The Future Role of the ECA: Challenges and Possible Reforms”**

*Check against delivery. The spoken version shall take precedence.*

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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 Ayala Sender. This is an important hearing for the Court and I welcome the opportunity to say a few words at its outset. Much of what I planned to say last September is still relevant today. [So, my apologies if I repeat some of the contents of the speech prepared for the previous occasion.]

There have been considerable developments in the EU since then. The Fiscal Stability Pact has been agreed and the ESM Treaty revised. But the goals of restoring economic growth and strengthening public finances still seem a long way off. And the need to restore confidence and trust in the Union and its institutions remains acute.

The Court believes that the need to restore confidence and trust makes improving EU public accountability a priority. Public auditors, like the Court and the SAI's of the Member States, have a major role to play in achieving that goal. That is why I believe it is important to place any discussion of possible reforms of the Court in the broader context of the challenge of improving EU public accountability.

## **Role**

As you know, the Lisbon Treaty re-affirmed the legal framework for the Court. The Court's mission, derived from the Treaty, highlights our **role** in promoting public accountability and assisting the European Parliament and Council in overseeing the implementation of the EU budget as well as the related goals of contributing to improving EU financial management and protecting the financial interests of citizens.

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The Court fulfils its mission by carrying out audits and providing independent assurance on EU financial management and reporting as well as advice on how they could be improved. In this way, the Court's role is to facilitate each element in the EU public accountability process: financial management, financial reporting, public scrutiny and reform.

To help us play our role effectively we have developed a set of values which we apply. Those values represent our commitments to the independence, integrity, impartiality and professionalism of our institution. And they direct us towards achieving excellence, efficiency and added value in our work.

We also value building strong working relationships with our partners in the accountability process: the other EU institutions, who are our principal clients and auditees, and the SAIs of the Member States, with whom we cooperate in the audit of EU funds.

## Challenges

We are committed to using the audit experience and partnerships we have developed for over thirty years to help the EU address the serious public accountability **challenges** it faces. Those challenges fall into two main categories.

The first category relates to the EU budget. This is a decisive point in the cycle for reforming the financial and legal frameworks governing the implementation of the EU budget. The Court has made public contributions on budget reform, the new financial regulation, the decision on the own resources system, and the regulations covering the main areas of expenditure for the period 2014 to 2020.

These reforms imply significant changes that will alter the financial management risk landscape. The stated priority of the reforms is to "focus on results" by simplifying funding rules, increasing conditionality and leveraging the EU budget. They raise a number of important issues for public accountability and audit.

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Allow me to give three examples. First, there is likely to be an increased use of **financial instruments**, in the form of loans, guarantees and equity participations. Many of the instruments exist already but some new ones will be developed. As the discharge decision for 2010 recognised, adequate management reporting on risks and performance of such financial instruments will be key to maintaining transparency and accountability.

Second, there are the moves towards making **EU funding** more conditional on national authorities meeting targets and less related to individual beneficiaries meeting specific conditions for receiving grant payments. This has important implications for what counts as compliance and potentially places more of the financial management burden on ensuring performance.

Third, further developments in the **control framework** at EU and national level will affect the “chain-of-accountability” that enables the Commission to take overall responsibility for the implementation of the budget. How exactly the assurance provided by this “chain-of-accountability” at EU and national level will develop and how it could be used by parliaments and auditors are questions which will also require further collective reflection.

This brings me to the second category of potential future challenges for the Court. They relate to our role with respect to the non-financial instruments and financial instruments outside the EU budget that the EU uses to meet its objectives.

The Europe 2020 strategy relies heavily on non-financial instruments, such as regulatory measures, in order to achieve the EU’s objective of smart, sustainable and inclusive growth. It also points to the increasing need for effective monitoring and evaluation by national authorities and the Commission in order to ensure that the targets are met. This situation presents a particular challenge for the ECA and the SAIs of the Member States: how can we coordinate our audit efforts to help parliaments hold the Commission and national authorities to account for the totality of the public funds put at stake to achieve EU objectives?

Intergovernmental action outside the EU Treaty framework also creates serious challenges for public accountability and audit. As you know, the Court and Member States’ SAIs have warned of the risks.

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The issues related to the European Financial Stability Facility and the European Stability Mechanism were discussed at a hearing of this Committee last month. So, I will not repeat myself today. I would only emphasise that they provide a specific illustration of why we believe a broad reflection on the EU's public accountability and audit structure would be appropriate. Ultimately, much of the EU's ability to improve its financial management and reporting depends on having effective public accountability and audit arrangements.

## Reforms

So what further reforms might the Court need to make to meet the challenges ahead?

Like other EU institutions, the Court needs to be prepared to operate in an increasingly fast changing and uncertain environment. And like other institutions, the new Multi-annual financial framework will require us to increase our added value to the EU and its citizens, while respecting budgetary constraints.

In this context, I think we should distinguish between possible reforms that would require legislative proposals by other institutions and those that we could carry out now ourselves under the current legal framework.

The composition, appointment procedure, and collegial nature of the Court are fixed in the Treaty. It is not for an external auditor to question these decisions by the EU's political authorities. However, we are ready to provide input or to comment on the implications of other's proposals - as indeed we did in the run up to previous changes to the Treaty. In fact, I would like to make three observations - on behalf of the Court - which I believe are relevant to any reflections the political authorities of the EU might have on this issue.

First, SAIs across the world are organised on a number of different bases that reflect their history, constitutional positions, mandates and powers. Similarly, the creation and development of the Court

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has reflected the wider changes in the governance, powers and composition of the EU as well as in the public audit profession. Based on the results of the peer review in 2008, the Court considers the current arrangements are sufficient and appropriate for it to fulfil its specific mission under the Treaty as an SAI. In particular, we consider that sufficient safeguards already exist for ensuring the independence, integrity and impartiality of the Court. Therefore, we suggest that the effectiveness in this respect of the current arrangement should provide a benchmark for assessing the benefits of any proposed alternatives.

Second, in considering the potential costs or savings of alternative arrangements, it is important to bear in mind the roles Members of the Court play in the audit process and communicating with stakeholders. Members are responsible for carrying out and reporting on individual audit tasks. They are also responsible for communicating with members of other EU institutions, national authorities, national parliaments, the media and citizens. In addition, they facilitate cooperation with Member State SAIs at the highest level.

Third - and arguably most importantly – I return to the point I made at the start: the position and role of the Court should be seen in the wider institutional and European context. Developments in EU governance have created a need for a broad reflection on the public accountability and the audit structure of the Union as a whole. The Court's organisational set up should reflect its role and position in that structure.

Within the current legal framework, there is clearly much more we can do. Our scope for action has been considerably increased by the adoption of new rules of procedure in 2010.

The new rules have already enabled the Court to streamline its decision-making so that audit reports and opinions are now adopted by Chambers of 5 to 6 members rather than the full college. The new rules also provide a flexible framework for managing the Court's resources and for implementing our next strategy for 2013 to 2017, which we are currently in the process of establishing. Our key concern is to find ways to increase our added value over the period while respecting budgetary constraints. To achieve that goal, we must develop our products and services, work closely with our partners, and organise ourselves efficiently.

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Since 2009, the Court has focused considerable efforts on developing its **products and services**. We have developed a number of new products such as public contributions on EU budget reform, on the main risks and challenges for EU financial management, on public procurement and on the implications for public accountability and audit of measures taken in response to the financial and economic crisis. A report following up our recommendations will be published this year.

Over the period, we have also developed our annual report. The report on financial year 2010 had a number of new features, including a chapter on getting results from the EU budget. The annual report on 2011 will include new specific assessments in agriculture and cohesion. Mrs Kaljulaid will say more on this - and other related points - later in the hearing. Developing our products and services will continue to be a priority. Overall, I think the challenge for the next few years will be to focus our products and services on helping the EU to address the main accountability challenges it faces.

It also goes without saying that the added value of the Court is directly linked to the use made of our work by this Parliament and our other **partners** in the accountability process. Strengthening our contacts and communication with our partners will, therefore, also continue to be a priority for the Court. Strong partnerships, particularly with this Committee, help the Court to target its work where it is most needed and valued.

We also recognise that the value of our work depends on the confidence of our partners in our professionalism. We are committed to applying the highest professional standards and being at the forefront of developments in public audit and accounting. The 2008 peer review report on the Court endorsed our audit management framework and it has been instrumental in directing our efforts to improve quality further. A new peer review involving the SAIs of Germany, France and Sweden will focus on the Court's **performance audit** work. We will keep this Committee informed of the developments.

Last – but not least – we recognise that we need to keep improving our efficiency as an organisation. Since 2009, we have made considerable efficiency gains in our administration that have led to posts being transferred to audit services. I believe we need to go further over the next period. I think we

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need to look at how we can add value more efficiently. Broadly speaking, the Court adds value by transferring the knowledge it acquires through audit to our partners. To become a more **efficient knowledge-based organisation**, we will need to see how we can streamline the key processes by which we create and transfer that knowledge to our partners, in particular this committee.

Mr Chairman,

Honourable members of the Committee,

Effective public accountability and audit arrangements are essential to maintaining the legitimacy of the EU in the eyes of its citizens. The Court believes that a broad reflection on how to improve the public accountability and the audit structure of the EU would provide a good basis for directing future reforms of the Court. In the meantime, the Court is committed to increasing its contribution to EU accountability while respecting budgetary constraints.

I hope these observations will assist the discussions here today. The Court looks forward to listening to the views expressed.

Thank you for your kind attention.

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