DECEMBER 2016

N° 12

CURIA RATIONUM

EUROPEAN COURT OF AUDITORS

Journal

European Court of Auditors

Past editions of the Journal can be found on:
ECA's website: http://eca.europa.eu/en/Pages/Journal.aspx

PRODUCTION
Rédacteur en chef / Editor in Chief : Rosmarie Carotti
Tél. / tel.: 00352 4398 - 45506 - e-mail : rosmarie.carotti@eca.europa.eu
Mise en page, diffusion / Layout, distribution : Direction de la Présidence - Directorate of the Presidency
Photos : Reproduction interdite / Reproduction prohibited

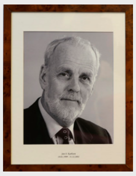
The contents of the interviews and the articles are the sole responsibility of the interviewees and authors and do not necessarily reflect the opinion of the European Court of Auditors

Cover photos:
- A high-level ECA conference on EU Financial Instruments
From left to right: Pier Luigi Gilibert, Chief Executive, European Investment Fund;
Ingeborg Gräßle, Member of the European Parliament, Chair of the Budgetary Control Committee;
Klaus-Heiner Lehne, ECA President;
Iliana Ivanova, Dean of Chamber II, ECA Member;
Nicholas Martyn, Deputy Director-General for Policy, Compliance and Performance,
DG Regional and Urban Policy, European Commission

TABLE OF CONTENTS

02


07


09


11


20


22


24


26


29


02 **EU Financial Instruments**
A high-level ECA conference organised by Iliana Ivanova, ECA Member and dean of Chamber II, and introduced by Klaus-Heiner Lehne, ECA President
By Rosmarie Carotti

07 **Commission's governance needs an update**
By Lazaros S. Lazarou, ECA Member

09 **In memory of Jan O. Karlsson (1 June 1939 – 19 September 2016)**
By Eduardo Ruiz Garcia, Secretary-General

11 **More cooperation needed to audit energy and climate policies effectively**
Contact Committee, Bratislava, 20-21 October 2016
By Radek Majer, Assistant to Liaison Officer
- Questions to Karol Mitrik, President of the Supreme Audit Office of the Slovak Republic

15 **Reflections around the Special Report N° 23/2016**
"EU support to Maritime Transport : ... In troubled waters"
By Luc T' Joen, senior administrator in Chamber II

20 **Two recent audits on key control mechanisms of EU support to farmers**
By Kristian Sniter, private office of Nikolaos Milionis

22 **Experiences from presenting AR 2015 to stakeholders in Slovenia**
By Samo Jereb, ECA Member

24 **Presentation of the 2015 ECA Annual Report in Cyprus**
By Andreas Antoniades, former head of private office of Lazaros S. Lazarou

26 **Two Special Reports on water quality related issues (Danube river basin) presented to water professionals at international conferences**
By Marion Colonerus, principal manager

28 **FOCUS**
- Special reports Nos 29 & 31/2016

29 **Chamber IV looking to the future**
By the Private Office of Baudilio Tomé Muguruza, Dean of Chamber IV

EU Financial Instruments

By Rosmarie Carotti

A high-level ECA conference organised by Iliana Ivanova, ECA Member and dean of Chamber II, and introduced by Klaus-Heiner Lehne, ECA President

15 November 2016

From left to right: Pier Luigi Gilibert, Chief Executive, European Investment Fund;
Ingeborg Gräßle, Member of the European Parliament, Chair of the Budgetary Control Committee;
Klaus-Heiner Lehne, ECA President;
Iliana Ivanova, Dean of Chamber II, ECA Member;
Nicholas Martyn, Deputy Director-General for Policy, Compliance and Performance, DG Regional and Urban Policy, European Commission

The ECA high-level Conference on Financial Instruments, held in Luxembourg on Tuesday 15 November, brought together a broad spectrum of representatives from the public and private sector to consider how financial instruments can best be used to provide financial support from the EU budget.

The conference drew on the conclusions of the recent ECA Special Report – "Implementing the EU budget through financial instruments – lessons to be learnt from the 2007-2013 programme period" and on the ECA's opinion on the EFSI. It offered a platform for exchanges of views and ideas between high-level experts from the EU institutions, practitioners and other public and private stakeholders. The conference included a morning panel, which discussed the topic from a global perspective, followed by four sessions in the afternoon where experts debated the different aspects relating to financial instruments at an in-depth technical level. They are described below. Active participation was encouraged from those attending. Those participating remotely via webstreaming were able to submit their comments and questions.

Role of financial instruments for the implementation of the EU budget. A better way to provide financial support from the EU?

Moderator: **Mark Rogerson**, ECA Spokesperson
Panellists:
Ingeborg Grässle, Member of the European Parliament, Chair of the Budgetary Control Committee
Pier Luigi Gilibert, Chief Executive of the European Investment Fund
Vazil Hudák, Vice-President, European Investment Bank
Nicholas Martyn, Deputy Director-General for Policy, Compliance and Performance, DG Regional and Urban Policy, European Commission
Iliana Ivanova, Dean of Chamber II, Member of the European Court of Auditors

For anyone interested in the EU budget, financial instruments matter very much. They can help mobilise additional public and private money. By allowing the re-use of the same funds several times they provide revolving financial support.

Financial instruments are increasingly used to provide support from the European Union budget in the form of loans, guarantees and equity investments. They differ from grants, which are a subsidy the beneficiary is not expected to pay back. Blending loans and grants together has become common practice in international development finance. Should financial instruments be used together with other support tools in order to create a better mix and impact?

The need for public intervention and investment stems from the existence of market failures and the current difficult economic and political situation in Europe. The EFSI (European Fund for Strategic Investments) and the SME initiative are good examples of the EU's response to these challenges.

In recent years the ECA has produced a number of special reports on financial instruments, and has a section dedicated to their use in its annual report. In the ECA's opinion, financial instruments have the potential to be useful and effective. However there are a number of weaknesses in the legal 2014-2020 framework covering them. Further tailoring of the regulatory framework is necessary.

There is great diversity on what can be addressed through financial instruments. While the assessment of the ECA is that financial instruments have a useful role to play, critical voices wonder whether the Commission was not too naïve in its enthusiasm for their use and their capability to leverage. Financial instruments need to be targeted and are not appropriate for all situations. Investors are also often reluctant to use them because the rules are too complex and the incentives are insufficient.

The Commission could do more. Local and national authorities need to be involved to a greater extent in promoting their use. And there is a lot to be done in terms of clarifying, simplifying, standardising, educating and evaluating. And much will depend on how the new instruments are implemented in practice on the ground.

Leverage of private capital: How can financial instruments be more successful in attracting private sector capital?

Moderator: **Tony Murphy,** Head of Private Office of Iliana Ivanova,
Panellists:
Sophie Barbier, Director of the European Affairs Division, Caisse des Dépôts France
Fabio D'Aversa, Partner, PwC Luxembourg
Roger Havenith, Deputy Chief Executive, European Investment Fund
Patrycja Wolińska-Bartkiewicz, Managing Director for EU Funds, Bank Gospodarstwa Krajowego Poland

The aim is to act in the highly risky financial gap market, and leverage investment in projects with significant investment needs. But how to attract private capital?

Private capital wants to earn from investment, and the public sector wants to teach how to invest in the future without public money. Both should learn from each other.

Financial instruments have to be made as attractive as possible. But sometimes private capital is not interested in public money because of the administrative burden it entails. There also is the complexity of assessing and reporting. Investors are not at ease with such hybrid models.

There is a need for a common definition of leverage of private/public funds. Leverage can be defined as the ratio total finance mobilised/EU contribution, but in practice the financial instruments lack a common methodology. It is difficult to establish leverage ex-ante or define added value.

The debate comes at the right time. Financial instruments were not successful in leveraging private funds says the ECA in its special report on the 2007-2013 programme period. To attract more private capital, a predictable legal framework, a single rule book, streamlining towards a single audit concept and good communication are needed. Standardisation and more technical assistance might help investors and local authorities.

Revolving effect: How to ensure that financial instruments are effectively re-used?

Moderator: **Niels-Erik Brokopp**, Principal Manager, ECA
Panellists:
Giorgio Chiarion Casoni, Head of Unit for Financing of climate change, infrastructure policies and Euratom, DG for Economic and Financial Affairs, European Commission
Frank Lee, Head of Financial Instruments Advisory, European Investment Bank
Kenroy Quellenec-Reid, Financial Engineering Manager, European Programmes Unit, Greater London Authority UK

Revolving means to re-use the same funds over different investment cycles. But the revolving nature of a financial instrument is not an end to itself.

The funds set up both at national and regional level in the 2007-2013 period have not created the desired multiplier effect due to delays in setting up the instruments. They performed poorly in ensuring the funds were used multiple times. The revolving effect remains an aspiration only for the new 2014-2020 programme period, some voices said.

A common rule book might be useful to ensure that financial instruments are used effectively and have a revolving effect. The permanently changing rules in a relatively stable market on the other hand are seen as a major obstacle.

Leverage and revolving also contradict themselves to a certain extent. The market sets up an investment fund only once. The gains go to the investors who may decide to re-invest them in the project. This gives flexibility. The EU should work as closely as possible with the market and make sure that rules do not become a straight-jacket.

Management fees and costs: How to implement financial instruments at a reasonable cost?

Moderator: **Martin Weber,** Director of Chamber II, European Court of Auditors
Panellists:
Luigi Amati, Co-founder and CEO, META Italy
Christoph Kuhn, Director of Mandate Management Department, European Investment Bank
Nicholas Martyn, Deputy Director-General for Policy, Compliance and Performance, DG Regional and Urban Policy, European Commission
Audrius Zabotka, Director General of INVEGA (Lithuania) and Member of the Board of AECM

Speakers and panellists then discussed the question of whether financial instruments are too costly. There is no single answer to that question; it is a matter of design and experience. However most of the instruments become too costly if they want to combine high leverage with good auditability. But compared to grants which have the same effects, financial instruments remain cheaper.

How to fix the costs at the right level? Here lies the friction between public accountability and the financial markets. The Commission is trying to fix overall caps and build in performance elements. It hopes to use the experience from the 2014-2020 period for improving the future.

The type and number of fees depends on the instrument. To lower the costs there is need for standardisation. And it is easier for the Commission to exert its influence when the funds are managed centrally.

EFSI and SMEs Initiative: The way forward for financial instruments

Moderator: **Mark Rogerson**, ECA Spokesperson
Panellists:
Hubert Cottogni, Deputy Director, Head of Mandate Management, European Investment Fund
Lucia Cusmano, Senior Economist, SMEs and Local Development, OECD
Merete Clausen, Head of Unit for Financing on innovation, competitiveness and employment policies, DG Economic and Financial Affairs, European Commission
Mihails Kozlovs, ECA Member
Iliyana Tsanova, Deputy Managing Director, European Fund for Strategic Investments

On 14 September 2016 the ECA published its opinion on the Commission's proposal for EFSI 2, and came to the conclusion that it is too soon to move to this second phase. However, the Commission feels the need for a clear signal that EFSI will continue, as the results will only be felt by the economies only years after the investment is made.

An independent assessment came to the conclusion that EFSI is vital for mobilising additional funds and also increases the willingness of the EIB to take risks. The SME Initiative - which is a joint financial instrument of the European Commission and the EIB Group and which aims to stimulate SME financing by providing partial risk cover for SME loan portfolios of originating financial institutions - is particularly successful.

It was however said that there is need for more technical support to the market and for preparing legislative proposals for the post-2020 period. The scaling up of EFSI is seen by some experts as an important signal to the market about continuity, although they share the concerns expressed by the ECA on weaknesses in monitoring and capacity.

Conclusion

The EU budget is of limited size and is unlikely to increase significantly in the near future. On the other hand, there are demands to finance the EU's new priorities. There is a general agreement between all stakeholders - EP, EIB, EIF (European Investment Fund) and Commission - on the importance of the use of financial instruments. But concerning the EFSI 2 the ECA prefers to warn early rather than report ex-post on what could have been implemented better. In order to contribute further, the ECA is planning to conduct a performance audit on the EFSI and to publish a special report on this topic in the first half of 2018.

There were 180 participants on the spot and 400 followed via webstreaming

Commission's governance needs an update

By Lazaros S. Lazarou, ECA Member

Getting governance right is a priority

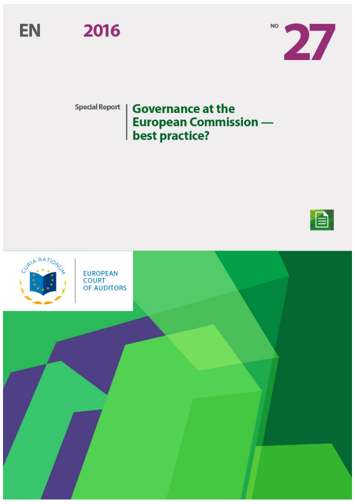
At the publication on 18 October of the special report on Commission's governance I explained that *getting governance right is a priority in the public and the private sector. The Commission's current governance is functional, but it is in need of an update. The Commission needs to be a role model in governance, at the forefront of developments in best practice*.

Report completed in 9 months

The work on this special report started mid-December 2015 and Chamber V adopted the report on 20 September. The work focussed on audit, financial management and control.

Best practice

We assessed the Commission's governance against best practice. We used the CIPFA/IFAC framework *Good Governance in the Public Sector*[1] as our main benchmark. We also selected international and public bodies we found to be at the forefront. Examples included the audit committees of the World Food Programme, European Investment Bank, World Bank Group and United Nation and the reporting in the US 2015 financial report and the 2014 Comptes de l'État of France.



1 Chartered Institute of Public Finance and Accountancy (CIPFA)/International Federation of Accountants (IFAC), "International Framework: Good Governance in the Public Sector", 2014.

From the executive summary

I. In the wake of the resignation of the Santer Commission and in response to the report of the Committee of Independent Experts, in March 2000, the Commission approved the 'Reforming the Commission' White Paper, intended to modernise the governance of the Commission. The reforms proposed covered setting priorities and allocating resources; changing human resource policy; and overhauling audit, financial management and control. The White Paper and the report of the Committee of Independent Experts continue to influence decision-making and governance in the Commission to this day.

III. While the rules and structures set up by the Commission largely reflected best practice at the time, best practice has continued to evolve. We thus examined the current governance arrangements at the Commission with a focus on audit, financial management and control to see whether they are in line with best practice and whether they still meet the needs of the institution.

IV. Best practice has continued to evolve since the 2000 reforms. Although some action[1] has been taken, we conclude that in several areas the Commission diverges from, or does not meet in full best practice set out in standards or put in place by the international and public bodies we selected as benchmarks.

[1] Including the publication alongside the accrual based EU accounts of the financial statement discussion and analysis, reporting on performance (resulting in 2015 in an integration with reporting on management in the annual management and performance report) and the transition to the updated 2013 COSO internal control – integrated framework.

Comply or explain

We found that Commission governance could be improved. Our first recommendation is that the Commission should comply with best practice or if it chooses not to do so, explain the reasons. The second recommendation listed specific updates to be made including earlier publication of the accounts together with other reports in a single accountability report (or suite of reports). It further asked the Commission to publish an estimate of the level of error based on a consistent methodology and recommended to turn the Commission's audit progress committee into an audit committee.

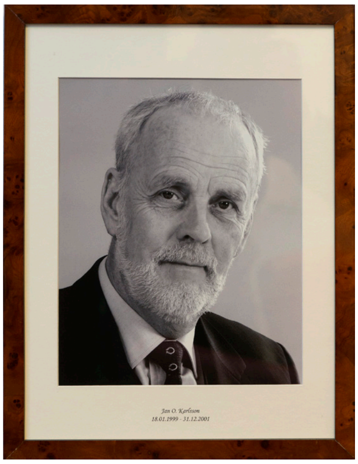
The audit team

I led the audit team and was supported by my private office staff, Chamber V's Director Peter Welch and Principal Manager Mariusz Pomienski. Bogna Kuczynska was Head of Task working together with a number of auditors, most but not all being included in the picture below.

A graph can say more than a thousand words

The special report used a number of graphs, tables and text boxes to illustrate the points made. Amongst these was the figure on accountability in the Commission, on which the Commission replied that it considers that overall political responsibility encompasses accountability for the work of its services.

From left to right: E. De Bruyne, A. Dürrwanger, J. A. Lok, P. Sime, D. Bochnar, L. S. Lazarou, B. Kuczynska, A. Antoniades, P. Welch, M. Pomienski, C. Westerberg, R. Abarquero Grossi.



In memory of Jan O. Karlsson

(1 June 1939 – 19 September 2016)

By Eduardo Ruiz Garcia, Secretary-General
English revised by Mark Smith

Jan O. Karlsson passed away in September. He was the first Swedish Member of the European Court of Auditors and served as the institution's President between 1999 and 2001.

Before and after his time at the Court, Jan was very much involved in Sweden's political and cultural life. He was one of the so-called "Palme boys", the inner circle of the charismatic Swedish Prime Minister of the late 1970s. At that time, Jan was young and full of hope: a committed Scandinavian social democrat, as he remained until the very end of his life.

Jan held several posts in his long political career. Before he joined the Court, he was Secretary of State for Finance, and after he left Luxembourg he also served as Minister for Migration and Minister for Foreign Affairs. Jan loved those times and liked to reminisce about all the struggles, discussions and meetings he was part of, and about the dignitaries and world leaders he had met. He was deeply marked, as most young Swedish politicians of the time were, by the terrible and unexpected assassination of Olof Palme in a street in Stockholm. Years later, he experienced tragedy again when his colleague in government, Anna Lindh, the Minister for Foreign Affairs, was stabbed and killed in a department store in the capital.

Jan arrived at the Court in 1996 and was assigned to Group III, the precursor to what we now know as Chambers III and IV. His Private Office premises had not been fitted out yet and, for a while, Jan's office was in a corridor with other staff. He would often take the time to walk around and see people in their offices, and always had a smile, a kind word or a thoughtful question. In those days, it was very unusual for senior staff to be so informal, and Jan's warmth and openness came as a pleasant surprise. This was his approach until he left the Court, and he was instrumental in making it part of the institution's management style. At times impulsive, his open and direct approach sometimes caused

him problems, but he was always ready to apologise and regain people's trust and confidence. One of his most notorious "inappropriate statements" came during the second Iraq war when, as Minister for Foreign Affairs, he described George W. Bush as a "cowboy". In this instance, despite the media storm, he did not apologise. He later told me the amusing story of a taxi driver who refused to take payment when he realised that his client was Mr Jan O. Karlsson, a firm opponent of Bush!

Between 1996 and 1998, Jan was the reporting Member for the development cooperation audit. It was a difficult period for EU external policy, marked by the wars in the former Yugoslavia and the Great Lakes area. The Court was very active and responsive in the face of events and produced a good series of special reports, notably on the EU's administration of Mostar, as well as on Humanitarian Aid, support for the Palestinian election, and post-apartheid South Africa. One special report, on the MED Programmes (an innovative facility launched by the Commission to foster decentralised cooperation), had a major impact. In it, the Court criticised poor administration and questionable practices. The report cited a particular company, ISMERI, as having a conflict of interests. The company subsequently took the matter to the Court of Justice, and this give rise to the famous case-law that is still relevant for our work today. The report on the MED Programmes was also one of the factors that led to the resignation of the Santer Commission, and subsequently precipitated the reform of the Commission's financial governance in the early 2000s.

Jan was elected President of the Court in 1999, a difficult period when relations with the European Parliament were very strained. Things started badly: the Preliminary Observations of the 1998 Annual Report were leaked to the press and broadcast on German TV a few weeks before the formal presentation in Strasbourg. The President of the Parliament cancelled the presentation in Plenary and stopped the Court from using the press-conference facilities. The meeting in the Budgetary Control Committee was noisy and hostile, and concluded acrimoniously. All Court staff involved in the event were extremely concerned and found themselves in an impasse; only Jan could see a clear solution, and he duly invited journalists for coffee in the Parliament's Press Bar, where he explained the contents of the Annual Report and the results of our work. Later on, relations with the Parliament were progressively restored, thanks largely to Jan's *savoir faire* and highly developed soft skills.

Presiding over the Court was not an easy job; meetings were scheduled to last for a day and a half, and often ended after 8 in the evening. All reports were adopted at the Court meetings; the Audit Groups had a largely preparatory role and could take hardly any decisions. Every administrative matter - however minor - was dealt with by the Court, there being no Administrative Committee at the time. However, Jan was a fighter and, although sometimes frustrated - like many other Members and staff - by the institution's bureaucracy, he never gave up and transmitted his enthusiasm to all of us.

Jan also promoted change at the Court on several fronts. For the first time, the Court discussed Communication Policy and adopted an Annual Activity Report; it also made progress on defining audit methodology and introducing IT tools (the first version of ASSYST was designed at that time). A single Audit Group was created to coordinate work on the Statement of Assurance, methodology and quality assurance. Measures were also taken to limit the Court's silo-like structure. However, most of these measures were not actually implemented and the process of change was largely unsuccessful. Many of these issues would later find themselves back on the Court's agenda; some of the reforms recently implemented echo ideas that had been outlined at the time, such as Chambers, pools of auditors, the Court's broad-ranging Annual Work Programme and 'quick' special reports.

Jan left the Court when his term as President ended, but he never lost interest in the institution. A few years after he left, he published a controversial article on the governance of the Court with Mr Tobisson, another former Swedish Member. They proposed that a structure similar to the one at the EIB should be applied at the Court.

Early in September, a few days before his death, I called Jan. Our conversation was a sad one, as we discussed his illness and the *caisse de maladie*. However, when I mentioned the upcoming election of the President of the Court, Jan's mood suddenly changed: I could hear he was very interested and his voice was bright again, as his eyes often were, too, when he was interested in something. Full of curiosity, he asked me: "Who are the candidates?"

His funeral took place on 19 October in the Katarina church in Södermalm, a bastion of working-class social democrats in the south of Stockholm, an area that Jan loved and where he was loved in return. The church was crowded with all sorts of people: his wife, sons, grandsons and other family members, as well as politicians (former Prime Ministers, ministers and senior officials), musicians and artists, people involved in finance and migration, and Palme's widow and son. All ages were represented, united in their friendship for Jan: a fitting testament to his life. Six participants were chosen to transport the coffin to the hearse.

Rest in peace, Jan. We will remember you as a man full of enthusiasm, curiosity and interest in so many aspects of life!

Jan O Karlsson

∗ 1 juni 1939
† 19 september 2016

Katarina kyrka
onsdagen den 19 oktober 2016

More cooperation needed to audit energy and climate policies effectively

Contact Committee, Bratislava, 20-21 October 2016

By Radek Majer, Assistant to Liaison Officer

The United Nations and the European Union keep sustainable energy and climate action in their sights and all stakeholders - governments, civil and private sectors - can and should contribute to achieving the objectives set out for 2020, 2030 and 2050. Auditors are not an exception. The national SAIs and the ECA have, since 2012, carried out around 230 relevant audits on this area and recognise that through their audit and review work they can significantly contribute to a better implementation of the policies in question. The Contact Committee addressed this topic at its 2016 meeting in Bratislava.

Phil Wynn Owen, ECA Member

The ECA is one of the four EU SAIs that consider energy and climate a top audit priority – it published nearly fifty reports on these topics since 2010, and seven further publications are due by the end of 2017. Phil Wynn Owen, ECA Member, presented the ongoing work on the ECA's landscape review of EU energy and climate and, in this context, emphasised the importance of SAIs discussing relevant audit risks, challenges and opportunities. To this end, the ECA will organise a seminar in January 2017 to address these issues. EC Vice-president Šefčovič appreciated the ECA's work on the landscape review in his *(pre-recorded)* welcome address to the participants and invited national SAIs to give prominence to this issue.

The French SAI addressed several topics related to EU energy policy and presented the audit work done in France in this context. French representatives echoed the ECA's call for more cooperation, suggesting that this could notably concern audit programming, sharing information about audit methodologies and identifying comparable indicators for future audit work.

The topics discussed included audits of energy efficiency and savings in public buildings. Recent audits carried out by the Danish, Portuguese and Czech SAIs show that the implementation of energy efficiency programmes is not satisfactory and more efforts, including additional investments, are needed to meet targets. The Contact Committee agreed that its Network for Europe 2020 Strategy Audit will include the topic in its activities.

The challenges of implementing national energy policies and securing the supply of energy were another topic on the list, with experience shared by the German, Polish and Swedish SAIs. Ladislav Balko, ECA Member, recalled the main findings of the ECA's audit of EU spending on renewable energy (SR 06/2014).

The Contact Committee concluded that only by working together can SAIs effectively address these cross-cutting issues and contribute to meeting the targets set out by the EU and the COP 21 Paris Climate Change Agreement, to which their Member States have committed. It also recognised that in addition to topics where a significant amount of audit work was already done (such as energy efficiency, renewable energy and energy security), more work could still be done in the field of innovations in the field of energy, the integration of European energy markets, greenhouse gas emissions and adapting to climate change.

Klaus-Heiner Lehne, President

In the ensuing sessions, the Contact Committee took note of the work carried out by its working bodies. This included a presentation by ECA President Klaus-Heiner Lehne of an assessment carried out under the ECA's leadership on the strengths and weaknesses of the Contact Committee cooperation framework. The Contact Committee agreed to this proposed recommendations and the way forward for increasing its effectiveness. SAIs also agreed to work together to update the relevant audit guidelines and checklists for public procurement audit.

The Dutch SAI presented its ongoing audit work on labelling products with the CE (conformité européenne) mark. Given that this issue concerns consumer protection, which stands high on the EU agenda, the ECA will see how it can usefully contribute to this work. The Latvian SAI made a presentation of its audit of the transfer of port activities from Riga city centre.

The next Contact Committee meeting will be organised and hosted by the ECA in October 2017.

Questions to Karol Mitrik, President of the Supreme Audit Office of the Slovak Republic

12

Karol Mitrik, President of the Supreme Audit Office of the Slovak Republic

Q.: Dear President, the main topic of this year's Contact Committee meeting was the European energy union and issues related to climate. What motivated the choice of this topic and what is its significance for Slovakia?

Answer: We selected this topic for the 2016 Contact Committee seminar because we wanted to highlight the importance of the issues of energy union and climate, and enable public auditors to share their experience from audits carried out by their Supreme Audit Institutions (SAIs). And since this is a supranational issue, we also wanted to emphasise the need for cooperation.

It is becoming increasingly clear that the European energy system faces an urgent need to secure safe, sustainable, affordable and competitive energy for all citizens. Excessive reliance on a limited number of supply sources (especially of natural gas) exposes countries to risks in case of supply cut-offs. It is, therefore, important that we decrease our dependence on fossil fuels and curb greenhouse gas emissions. Both households and enterprises show growing interest in affordable energies and competitive prices.

A study by Cambridge Econometrics, a British consulting company, points to an increased dependence of the European Union on oil imports for the last 15 years. In 2015 oil imports cost the EU € 215 billion. And Slovakia is the most vulnerable country. Among the EU countries, it is most in danger of having its oil supply suspended. However, the group of five most jeopardised countries also includes its neighbours – Hungary, the Czech Republic and Poland – together with Greece.

The study results also assert that 53% of energy consumed in the EU is imported. Some countries import all of their gas from one supplier. Diversification of sources and suppliers of energy is the key means of increasing our energy security. Concerning diversification, work is under way on the Southern Gas Corridor, on a strategy for an improved use of the potential of liquefied natural gas and gas storage facilities, as well as on building liquid gas hubs with multiple suppliers in Central and Eastern Europe and the Mediterranean.

The selection of the Contact Committee topic was also motivated by the fact that interconnectedness of Member States in terms of energy is crucial for cross-border power exchange since their individual energy mixes often complement one another. A changing electricity market – and in particular the growing share of renewable energy – requires, in my opinion, a market structure which enables coordination of capacities at regional level, storage and more flexible response on the demand side, which will allow consumers to better participate in markets and facilitate cross-border energy exchange.

We can see that investments in the energy performance of buildings are one of the most beneficial for citizens and industry. Heating and cooling continue to be the largest consumer of energy in Europe. The Commission will, therefore, review directives on energy efficiency and energy performance of buildings to create an administrative framework for future progress in increasing the energy performance of buildings. Based on practical experience from Member States, it will support methods for facilitating access to available financing for increasing the energy efficiency of buildings.

The main objective of the EU policy concerning climate change is the reduction of domestic greenhouse gas emissions by at least 40% by 2030 compared with 1990 levels. Achieving the goal of cutting down on emissions by at least 40% has several energy-related, economic and environmental benefits, such as a decrease in fossil fuel consumption, air pollution and the extent to which our economy is exposed to fuel supply uncertainty and high import costs.

The European Union is still the absolute leader in the fight against climate change, which is also demonstrated by the swift ratification of the Paris Agreement at EU-level during the Slovak Presidency of the Council of the EU and the depositing of ratification instruments on 5/10/2016 at the UN Headquarters in New York.

It follows that the issues of energy and climate present critical strategic challenges for the EU and its Member States. Relevant European and national authorities should respond to these challenges, and through their audit activities so should national SAIs and the European Court of Auditors.

Only by means of cooperation can SAIs address these important cross-cutting issues in the most effective way. Through their work, knowledge and experience, public auditors can make a relevant contribution to meet the targets of the EU energy and climate strategy and the COP 21 Paris Climate Change Agreement.

Q: The Investment Plan for Europe, which Slovakia has decided to support with € 400 million, prioritises energy, the environment and sectors promoting efficient use of resources. Is the implementation of such projects planned in Slovakia in the near future and do you expect that they will be the subject of audit by your Institution?

Answer: The economic crisis has caused a rapid drop in investments everywhere in Europe. I believe that in order to reverse this negative trend and steer Europe towards economic recovery, joint and coordinated effort at the EU-level is necessary. The Commission defined an approach based on three pillars: structural reforms, fiscal responsibility and initiating investments for sustainable growth. The Investment Plan for Europe is central to this strategy. During 2015, the EU adopted an operational framework for the European Fund for Strategic Investments which should mobilise € 315 billion of investments.

To leverage additional investments, the European fund for Strategic Investments was created in cooperation with the European Investment Bank (EIB), owned by all EU Member States and focused on investments in a wide range of areas, including infrastructure, energy, research and innovation, broadband connection and education.

Unlike the European funds, the Investment Plan is distinctive in that there is no set geographical or sectoral focus for its funding. According to the most recent information, so far three projects have been approved for Slovakia – a ring road D4/R7 around Bratislava and two guarantee schemes for small and medium-sized enterprises provided by the ČSOB bank. From a long-term perspective, the Slovak SAI does not exclude the possibility of auditing the implementation of the D4/R7 road ring project, since it has started only recently. The Slovak SAI audited the project preparation in the spring of this year.

Q.: The Contact Committee has agreed to increase the efficiency of its work. Which steps do you consider particularly important in this regard?

Answer: As I see it, efficiency needs to increase in two ways – in the internal operation of the Contact Committee as well as outwards, because in this fast-changing time, we must respond in a flexible way to emerging situations that require our attention.

One significant activity of the Contact Committee recently has been the work of the task force for assessing the Contact Committee cooperation framework. The task force processed the results of a survey aimed at cooperation within the Contact Committee and drafted a detailed report including an assessment of the Contact Committee's strengths and weaknesses. These results served as a valuable basis for relevant recommendations for improving the efficiency of the Contact Committee's work.

A proposal presented by the task force to allow any member of the Contact Committee (member SAI) to initiate at any time during the year a new activity is particularly important for making the operation more efficient and speeding up the activity within the Committee. With this flexible arrangement it will not be necessary to wait until the next annual meeting of the Committee and approval of the proposed activity. Results and outputs of these activities, which would be communicated to liaison officers on a regular basis, would subsequently be put forward for consideration to the Contact Committee, which would determine further action.

Regarding the external aspect of our functioning, it is, in my opinion, very important to more actively exploit information provided under the Early Warning Mechanism. Wherever possible and appropriate, we need to find ways to adopt a common position within the Contact Committee and its application in relevant bodies and institutions.

Reflections around the Special Report N° 23/2016 "EU support to Maritime Transport : ... In troubled waters »

By Luc T' Joen, senior administrator in Chamber II

This article provides interesting background reading to the recently published special report on maritime transport, as well as some particular insights and reflections of the head of this audit task.

1. The EU maritime sector is certainly important but, in global terms, a small player

The more than 1 200 commercial seaports, dotted along some 70 000 km of coastline in 23 of the 28 EU Member States, transport 400 million passengers per year and handle 75% of Europe's cargo trade with non-member countries (3.8 billion tonnes in 2014). Nevertheless, the EU ports, when looking at the global picture and assessing the statistics on port throughput in the world, both for cargo (in tonnes) and container traffic (in TEUs), are small compared to eg. South Asian ports (see the top 20 of the world port ranking 2014 of the World Shipping Council website below).

WORLD PORT RANKINGS - 2014								
TOTAL CARGO VOLUME TONS, 000s					CONTAINER TRAFFIC TEUs (Twenty-Foot Equivalent Units), 000s			
RANK	PORT	COUNTRY	MEASURE	TONS	RANK	PORT	COUNTRY	TEUs
1	Shanghai	China	Metric Tons	678 376	1	Shanghai	China	35 286
2	Singapore	Singapore	Freight Tons	581 268	2	Singapore	Singapore	33 869
3	Guangzhou	China	Metric Tons	500 975	3	Shenzhen	China	23 798
4	Qingdao	China	Metric Tons	465 055	4	Hong Kong	China	22 374
5	Port Hedland	Australia	Metric Tons	446 922	5	Ningbo	China	19 450
6	Tianjin	China	Metric Tons	445 780	6	Busan	South Korea	18 423
7	Rotterdam	Netherlands	Metric Tons	444 733	7	Qingdao	China	16 624
8	Ningbo	China	Metric Tons	429 912	8	Guangzhou	China	16 160
9	Dalian	China	Metric Tons	337 366	9	Dubai Ports	United Arab Emirates	14 750
10	Busan	South Korea	Revenue Tons	335 411	10	Tianjin	China	14 050
11	Hong Kong	China	Metric Tons	297 737	11	Rotterdam	Netherlands	12 453
12	Qinhuangdao	China	Metric Tons	261 702	12	Port Kelang	Malaysia	10 736
13	South Louisiana	United States	Metric Tons	242 578	13	Kaohsiung	Taiwan	10 593
14	Port Kelang	Malaysia	Metric Tons	217 289	14	Dalian	China	10 128
15	Houston	United States	Metric Tons	212 561	15	Hamburg	Germany	9 729
16	Nagoya	Japan	Freight Tons	207 621	16	Antwerp	Belgium	9 136
17	Antwerp	Belgium	Metric Tons	199 012	17	Xiamen	China	8 572
18	Shenzhen	China	Metric Tons	192 093	18	Los Angeles	United States	8 340
19	Xiamen	China	Metric Tons	184 604	19	Tanjung Pelepas	Malasyia	7 897
20	Dampier	Australia	Metric Tons	172 802	20	Long Beach	United States	6 821

While historically (up to and including the nineties), European ports were very important. The situation then changed quite rapidly: the biggest EU port (Rotterdam) is now only number 7 by cargo volume and is not even in the top ten for container transhipment. For cargo, only Antwerp is next to Rotterdam in the top 20 as an EU port. Whereas for container traffic, only Hamburg and Antwerp can demonstrate their presence in the same ranking. In other words, industrial globalisation and containerisation have made Shanghai and Singapore and other Chinese ports leaders in port activities in the world. So, let's perhaps stay modest in assessing the EU's importance.

2. Weaknesses in planning ahead, as there is no such thing as an "EU Ministry of Transport"

Since 2000, € 6.8 billion of EU co-financing and € 10.1 billion of EU guaranteed EIB loans have been invested in EU port infrastructures. This was done mainly via the structural funds schemes (European regional development Fund and the Cohesion Fund) and the direct spending mechanism of the Trans-European Network for transport ("TEN-T") funding.

This supposes a strong focus on long term strategic development of port capacity, and transnational planning of transport streams to make it work in a coherent way across the continent. The reality is different, unfortunately.

Planning is still done in each Member State, and is obviously national. As Commission Vice-President Siim Kallas once indicated, ***the EU transport network is a "patchwork" of different national schemes,*** and there is no entity at European level which oversees and effectively coordinates this planning. Member states took care of their national port planning themselves, and the EU is supposed to support investment projects deemed necessary by them.

The Commission's DG MOVE only came in 2013 with a long term plan linking the transport policy objectives to a funding mechanism (the Connecting Europe facility, "CEF") for the 2014-2020 period, and only for that same period. An "ex-ante conditionality" rule in the policy provisions on cohesion spending requires Member States to present a coherent long term transport plan to get further EU co-financing. However, this plan has shortcomings as it foresees to connect an unrealistic high number of 104 core ports by 2030 (which in infrastructure building terms is basically "tomorrow") to the network, and some vital waterways are not included.

3. Ignorance on capacity and needs, and a policy of "let's build quays and wait for ships to come"

A basic principle of good spending would be to assess the real need for investments by looking at what is the available capacity, what is the use made of it, and what realistic future growth can be expected using robust and reliable data. The European Commission neither knows the current capacity of EU ports nor the use made of it and, as observed above, has no say in the Member States long term port planning: it has no right of scrutiny or a say on prioritisation on the Member States' transport plans and can only try to influence the priority setting by Member States by offering to co-finance part of certain investments. While an EU "Port Observatory" was in discussion for some time, there is no body involved managing this sector by channelling the various funding streams to real capacity needs (the idea seems to be banned because of discussions on who should be "in" or "out").

Data on port capacity at individual port level are scarce and carefully hidden, even to the Commission. Attempts to gather such data through an EU-paid research project "Portopia" (budget allocated of € 4.2 million, 70% EU contribution) with port data collected on a voluntary basis are unsuccessful until now because of low participation. The reason invoked for this is that ports consider that too much transparency would allow competitors to gain from this. So, with the help of an expert, we calculated ourselves the capacity of the individual ports audited (as we are famous for counting..).

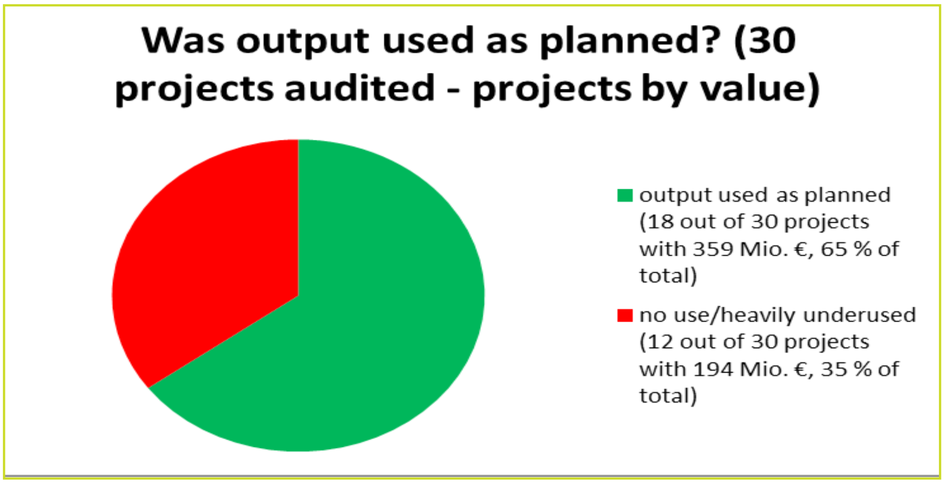
A first striking finding of our audit was that some of the visited port authorities did not even know themselves what their available port capacity was: there was a general lack of accurate capacity estimation by ports: 7 out of 16 audited ports with container traffic did not have aggregated capacity data available, in the sense of how much container traffic (in TEUs) they can handle on a yearly basis. A second observation is that there is underestimation of the real container capacity for those ports that do have such aggregated capacity data available: 7 out of 9 ports had declared a lower capacity than the ECA calculated capacity for containers. Due to this lack of capacity estimation, half of the container terminals invested in, had utilization rates of less than 35%, and only four ports had utilization rates of 50% or more.

2014 data from the OECD-ITF indicate that there is a lot of spare capacity available for container transhipment in ports all over Europe: the container terminal utilisation rate was 50.5% in the Scandinavia & Baltic region; 56.4% in North West Europe; 61.3% in East Mediterranean & Black Sea regions, and 62.7% in West Mediterranean. On top of that, the future use of this capacity should go down in most parts: while the capacity utilisation rates for the West Mediterranean region and North West Europe are expected to remain stable, the rates of Scandinavia. Baltic ports will fall further to a level of 30% and to a 50% utilisation for the East Mediterranean & Black Sea region. At such levels, there is huge overcapacity and many ports and terminals in these regions will struggle to attract cargo and see their volumes decline.

So, while some of the individual ports do not know their capacity and others underestimate this capacity, they still were able to convince policymakers that additional capacity is nevertheless needed and EU and national money has been paid out after delivery of the new infrastructure (output based payments) which is now waiting for enough ships to come to make the investments successful.

4. The special report is hard hitting on risks of waste, but also supports the Commission's transport policy objectives and the new cohesion policy provisions

While we clearly acknowledged that port infrastructures are built for many decades, we concluded that there is a high risk of waste for € 97 million because the newly audited infrastructures were not in use or heavily underused for many years after the works ended. In addition, we revisited in 2015 three empty ports and two not connected port projects audited in 2010 (SR4/2012) to assess the evolution. Two of the three empty ones were still quasi empty in 2015, and the two not connected ports in 2010 were still not connected in 2015. This gives up to some € 400 million of EU funding not well spent. Last but not least, delays in delivering the works, cost overruns, missing links and heavy bureaucracy were again noticed.



Given all these facts above (absence of robust planning; absence of knowledge on capacity available and still needed), in the past the ECA had already, found that EU funding support was used to finance unused or heavily underused port quays. Special Report N° 4/2012 on EU support to seaports infrastructure investments audited in 2010 concluded that only 18% (or less than 1 euro out of 5 invested) of a randomly selected sample of 27 port projects in 9 regions of 4 Member States (€ 726 million EU money audited) was effective. Several empty ports were observed, and half of the money invested for port quays built was affected by absent connections to the network (missing links). A similar finding of risky and wasteful spending was observed in the current report: out of 37 newly audited projects involving more than € 1 billion of EU funding, 7 were not completed (€ 524 million), and out of the 30 completed projects, only 18 were used as intended, and 12 were empty or heavily underused (see figure above).

Various reasons can explain the waste: the need to spend allocated money before the deadline, even if there are no good projects (giving back money to Brussels looks odd); absence of quality cost-benefit analysis, sometimes established after the events with flawed economic analysis and little effort to estimate a realistic future demand; loss of project ownership due to heavy bureaucracy; political influencing of earlier made choices; high intra port competition; the "volatility" of the shipping business; sudden changes in geopolitical context, or in commercial strategies in neighbouring non EU-countries and, of course, the financial crisis.

However, not all we saw was bad: the report also quoted good projects (eg dredging an access channel to improve the port entry in a Swedish port lead to bigger ships and more cargo attracted; building a road to better connect the city to a port in Poland lead to an increase in safety and less noise for the local inhabitants). These cases do not concern inner port infrastructures, but connections to ports, and this is exactly the positive message and the way forward provided by the EU transport policy objectives: CEF will give priority to improving the connections for core ports. Unfortunately, EU funding for port infrastructures can still also be provided through other policy provisions: for example, cohesion policy amounts can still fund port investments without setting transport policy objectives to be met.

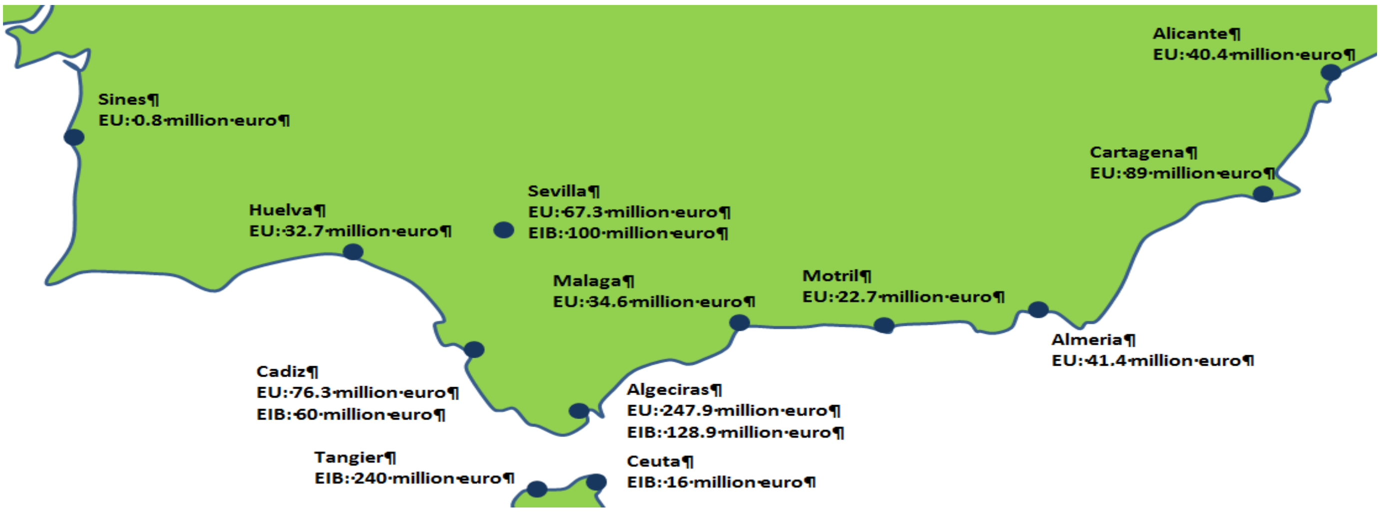
5. Co-operation between ports? No, thank you, in many cases

While co-operation could be a way to avoid difficulties when faced with fierce competition from neighbouring ports handling similar cargo streams for similar hinterlands, the search for synergies is very low. In the literature assessed during the study, we came across a few cases where port co-operation seems to work properly (eg. Copenhagen-Malmö), but in many cases observed that such cooperation is mostly limited to joint marketing efforts to reduce costs. But this very quickly transforms into "competition": after the common marketing initiative to attract customers and cargo to the group of ports, individual ports have fierce fights to have the cargo coming to their port rather than to the neighbouring port. This was observed on many occasions and many examples were provided in the report.

By not working together, the positive effects of possible synergies are lost. While competition indeed brings a lot of advantages it must be recognised that there are simply too many ports asking for too much money for too little traffic. In other words, if "the cake is big enough, everybody will have a piece". As we know it is not big enough (***there is too little cargo for too many ports***[1]"), there are "losers" in the game, and EU-money spent in these ports is spent ineffectively.

6. Clear language is important, ... but sometimes hard to implement

"Be clear in what your message is", is a basic requirement for all auditors. But it is not always easy to apply the "plain language" requirements to get the message spread inside the sector, loud and clear. For example, in our report, we found a lot of ineffective spending because many neighbouring ports were investing in similar infrastructures at the same time without a robust overall needs assessment to see whether there is a real and sufficient demand. This situation lead to unsustainable investments in ports as shipping lines can, relatively easily, swap from one port of call to another if better conditions (prices, connections, cargo treatment times, slot allocations, ...) are offered next door ("***footloose" investments***). The report gave the following example of massive public spending in many ports the West Med area (see below) to highlight the phenomenon:



1 A recent quote from OECD-ITF expert M. O. Merk on the EU port's system

The fact that one port, or port operator lost a subsequent volume of traffic to a competing port or port operator, is commonly called "***cannibalisation***" in the EU port jargon. However, you will not find this (particularly strong) word in our special report: after a fierce Chamber debate, it was decided to opt for a more neutral wording to avoid meaningless "maneater" interpretations. Nevertheless, it did not hamper the Commission to use it a few times in their replies to our report.

7. Should public money be put into port infrastructures and superstructures after all?

While in the UK, the larger ports are fully privatised, the vast majority of port authorities in Europe are publicly owned. There are different models of port management but the most common one (the 'landlord' model) implies that the port authority owns the basic infrastructure and leases it out to port operators (by means of a concession), while retaining all regulatory functions. Port operations are run by private companies, which provide and maintain their own superstructures, which include buildings, cranes and other cargo-handling equipment at the terminals. Currently, a lot of public (national and EU) funding is provided to support ports in their infrastructure needs: € 17 billion was provided as EU support in the form of grants and loans to port investments since 2000 to add to the national public money. While the overall -public and private- investment in port infrastructure is estimated to be <u>at least</u> € 7.5 billion per year.

While the usual reason for investing in ports is that they create jobs (Eurostat reported an estimation that 3 million people are directly and indirectly employed by ports in the EU, and the OECD estimated that each additional million tonnes of cargo passing through ports leads to the creation of around 300 additional jobs at and around these ports), here again, at Commission level, DG MOVE has very limited information and data available on job creation by the ports activity. There is little willingness or ability at the level of the Member States and port authorities to invest substantial financial and human resources to develop yearly and detailed indicators on employment and creation of value added.

Much of the money invested goes to one, rather small but important, component of the overall cargo streams: container transhipment (which is only around 20% of the total throughput of a port): € 3,5 billion of EU co-financing was invested for adding container transhipment capacity and adequate connections, next to more than € 4 billion of EIB loans, largely covering the same type of operations. We also found that EU co-financing was provided to "user-specific" superstructures (in Poland and Spain) although this is the normal business of the private operators. The reasons for this was that there were no clear Commission rules on the treatment of such superstructures, that the case has been submitted to the Commission for state aid checks, and that the regional policy goals of creating jobs did not forbid this type of expenditure. Even if it would be compliant with the current non-clear rules, this does not make it yet a sound case for putting EU money into...

The economic rationale behind all this may be that financing port infrastructures and superstructures provides major shipping lines with economies of scale. This has a direct positive economic effect of reducing the cost of transporting goods for society, <u>***if***</u> this is discounted in the price charged to the final consumer. However, the mega ships also bring along substantial costs for the same society as new and/or bigger infrastructures and superstructures in- and outside ports are needed to cope with the effective and efficient treatment of containers: the dredging of fairways, access channels and turning basins; new or increasing and strengthening existing quays and berth infrastructure; increasing storage areas; improving and upgrading rail, road and river accesses, as well as building multimodal terminals. These are all on the public support "wish-list" of the ports.

If this would be a profitable business, the private companies would do the investments themselves. If they refrain from doing those, under which conditions should the public continue to do these investments instead?

The ECA kept the door open, but recommended to reduce the scope for future funding in those cases where we saw waste and unneeded expenditure. The ECA also suggested to opt for more repayable instruments using CEF, next to increasing the transparency in the rules in order to achieve a level playing field and equal competitive positions everywhere.

As a conclusion, this special report was hard hitting, and gave the Commission and the Member States the direction towards a more effective, efficient and transparent way of spending (a lot of) EU money, supporting the Commission's attempts to prioritise investments to connect ports but suggesting also to refrain from certain future investments, and to tackle inefficiency and ineffectiveness with all legal means available.

Two recent audits on key control mechanisms of EU support to farmers

By Kristian Sniter, private office of Nikolaos Milionis

© Paying Agency Saarland

Image in the Saarland LPIS

As the main fund implementing the Common Agricultural Policy (CAP), the European Agricultural Guarantee Fund (EAGF) subsidises farmers based on the area of land at their disposal for an amount of approximately 45.5 billion euros in 2015. They must follow new "greening" practices in favour of crop diversification, the protection of permanent grassland and of ecological focus areas. Cross-compliance also links most CAP payments to farmers' compliance with basic rules for the environment, food safety, animal health and welfare, and good agricultural and environmental conditions.

The Court has published late October two Special Reports on key control mechanisms that ensure correctness of EU payments and check compliance with cross-compliance obligations. Special Report No 25/2016 assessed the Land Parcel Identification System (LPIS) – an IT system based on aerial or satellite photographs recording all agricultural parcels in the Member States. Special Report No 26/2016 examined whether the cross-compliance management and control system were effective and to which extent simplification had been achieved.

LPIS: a useful tool that can be further improved

The Court's Statement of Assurance (SoA) estimated the level of error for the European Agricultural Guarantee Fund (EAGF) at 2.2 % in 2015. Nearly all errors were area–related. Over recent years our SoA results showed that action plans and financial corrections addressed LPIS shortcomings in the Member States affected. We concluded that the LPIS is a useful tool for determining the eligibility of agricultural land but its management could be further improved.

We identified some weaknesses in LPIS processes affecting the Member States' ability to reliably check the eligibility of land. While LPIS ortho–imagery was mostly up–to–date, photo–interpretation was not always reliable or conclusive. In addition, Member States did not analyse the cost–effectiveness of their LPISs in order to better design the related checks.

We found that Member States had made progress in upgrading their LPISs to meet the new 2014-2020 CAP requirements. However, LPISs had not yet been completely adapted for greening. Some efforts by the Commission to simplify the CAP had had mixed results.

Through improved LPIS–related guidance, regular audits and follow–up of Member States' action plans and financial corrections, the Commission's performance of its monitoring role had improved. However, the reliability of the yearly quality assessment exercise on the effectiveness of the LPISs in the Member States was undermined by weaknesses in the applied methodology and insufficient checks and follow–up by the Commission.

We issued recommendations to further improve the functioning of LPIS. In particular, we encouraged the Member States to develop and set up a framework for assessing the cost of running and updating of their LPISs. As the error rates are close to the materiality threshold of 2% and as the cost of additional controls are high, Member States must be in a position to assess the cost-effectiveness of their controls, in order to better design them. This information on costs is also key to the Commission and other stakeholders when considering future policy developments, their controllability and their implementation costs.

Making cross compliance more effective and achieving simplification remains challenging

The objectives of cross-compliance are to contribute to the development of sustainable agriculture and to make the CAP more compatible with the expectations of society. Non-compliance levels can reach high levels in certain areas up to around 25%. We concluded that the information available did not allow the Commission to assess adequately the effectiveness of cross–compliance. Despite the changes introduced for the CAP for the period 2014–2020, the cross–compliance management and control system could still be simplified.

The performance indicators used by the Commission gave a partial view of the effectiveness of cross–compliance. Furthermore, the Commission did not analyse the reasons for the infringements and the means of addressing them.

The changes in the CAP for the period 2014–2020 somewhat reduced the number of cross–compliance rules, by removing requirements which were not sufficiently relevant to the farming activity. However, control procedures remained complex and the costs of implementing cross–compliance were not sufficiently quantified.

We recommended that the Commission should improve the set of indicators used to assess the performance of cross–compliance, in particular by taking better into account farmers' levels of compliance. The Commission should also improve the sharing of the information on cross–compliance related infringements between its services in order to help them to identify the reasons for breaches and to take appropriate measures to address them. For the CAP post-2020, the Commission should propose adapting the rules regarding cross–compliance on–the–spot checks. This would allow a more effective targeting of key control points.

Source: European Court of Auditors

Situation found on-the-spot

Experiences from presenting AR 2015 to stakeholders in Slovenia

By Samo Jereb, ECA Member

Samo Jereb, ECA Member and Dr. Milan Brglez, President of Slovenian National Assembly

I have presented many audit reports from the Court of Auditors of the Republic of Slovenia (COARS) to stakeholders before, but at the end of October and beginning of November 2016 I presented an audit report from European Court of Auditors (ECA) for the first time. The major issue affecting the level of stakeholders' interest originates from the fact that in ECA audit of 2015, we audited just 12 cases in Slovenia, and no quantifiable errors were found.

Since all European institutions must increase awareness of their work in the Member states in order to regain the trust of citizens, I proposed to have presentations to all bodies involved in budget management. Even though my predecessors had managed to open doors for our AR presentation with such stakeholders I was nevertheless positively surprised at their willingness to hear our presentation. I presented our AR 2015 to the following (in chronological order):

- President of National Council of the Republic of Slovenia (presentation to the National Council as a whole will take place later),
- President of National Assembly,
- First deputy president and Supreme State Auditor responsible for auditing the budget at COARS,
- Government of the Republic of Slovenia on their session,
- broad group of representatives of Ministry of finance,
- Advisor to the President of the Republic of Slovenia on Economic and Social Issues,
- Working bodies of National Assembly (Committee on EU Affairs and Committee for Public Finance Control on common session).

I was also invited as a guest speaker to the Faculty of Economics at the University of Ljubljana. I presented the work of ECA and also used the opportunity to present the major findings from AR 2015 to students on a post graduate course on "Auditing".

One of the important stakeholders remained without a presentation – the media. From my past experience in COARS I learned that the media generally follows the principle that "bad news is good news". So there was no press conference organized since, in Slovenia, no quantifiable errors were found. Even after the presentations to the above mentioned stakeholders there were opportunities for journalists to ask questions, but there was practically no media interest in the AR 2015.

One of the important discussions was connected with timing of the publication of AR 2015. The ECA managed to issue the AR one month earlier than before, so it was issued at almost the same time as report from COARS on the execution of Slovene budget. This provides an opportunity for the working bodies of national assembly to discuss both reports at the same time to get a broader picture when deliberating each report. There are still some operational obstacles to having both reports at the same session of the working bodies, and some hesitations to do so regarding differences in reporting from COARS and ECA especially regarding (not) publishing error rate. But we concluded that it would be beneficial to the Members of parliament and other stakeholders that they deal with both reports at the same time.

The common questions from stakeholders ranged from issues connected with results based budgeting, to why the error rate remains so high and what the European Commission (EC) is doing to improve internal controls to lower the error rate. Also there were many questions about the persistence of the errors regarding financing farmland areas and financing activities without having any underlying documents from the beneficiaries. This was always followed by the question what has been done about it and especially what has ECA done about it. In my view we need to shift the focus of our presentation of AR 2015 from reporting about the error rate to the recommendations that were given to the auditee. At least, as a response to such questions, we should link our findings directly with our recommendations. It is interesting to hear that for more than two decades our opinion on budget expenditures is qualified but the important question is how to proceed to make it better.

One of the important concerns for the stakeholders in Slovenia were financial instruments, since there is increasing concern that using so many financial instruments is difficult to manage and poses great risk to the future budgets. There is a fear that we may be facing a new economic crisis because of the use of financial instruments (especially EFSI), so they wanted to know whether the ECA had warned the Commission about those risks and the need to ensure that the risks are well managed and mitigated.

Even though Brexit has not yet begun, stakeholders wanted to know whether the ECA has started to audit the Commission's preparations for Brexit. Specifically how the Commission and the 27 MS will negotiate the process and what the consequences will be to the EU budget for the other MS after one of the major contributors leaves.

Regarding my previous experience at COARS, the stakeholders wanted to know what the differences are between ECA and COARS. Since audit approaches are quite similar the debate was mostly about annual work plan and whether it should be made public, as it is in ECA, or secret as it is in COARS. There was also some interest in the differences in appointment procedures for members of ECA.

I used this opportunity also to present to all stakeholders a list of the special reports published in 2016 and the special reports expected to be published in future months. I pointed out some of the most interesting reports from Slovene point of view. I hope that I have raised some interest with them also for our special reports so that we can present more often in Slovenia and I hope that our special reports will be more interesting also for media.

Presentation of the 2015 ECA Annual Report in Cyprus

By Andreas Antoniades, former head of private office of Lazaros S. Lazarou

Our annual report constitutes a useful tool in implementing the European and national budgets, for the Republic of Cyprus Government and the House of Representatives.

Lazaros S. Lazarou, ECA Member responsible for the annual report, presented our 2015 annual report in Cyprus, from 14 to 18 October 2016. He presented the key findings and messages of the 2015 annual report, our contribution in addressing the current challenges to the European project by performing high quality financial compliance, as well as audits of results achieved, and EU financial and budgetary matters concerning Cyprus. Furthermore, he made a briefing on our special reports on governance at the European Commission[1] and on excessive deficit procedures[2].

Lazaros S. Lazarou met with Nicos Anastasiades, President of the Republic of Cyprus, and he presented our annual report to him.

He also met with Demetris Syllouris, President of the House of Representatives, and presented the annual report in a joint meeting of the Parliamentary Committees on Development Plans and Public Expenditure Control (Public Accounts Audit Committee), on Financial and Budgetary Affairs and on Foreign and European Affairs. The meeting was chaired by the President of the House of Representatives for half an hour when he passed the baton to the Chairman of the Public Accounts Audit Committee.

Lazaros S. Lazarou presenting our annual report to Mr Demetris Syllouris, President of the House of Representatives

"I express my high appreciation for the work of Lazaros S. Lazarou at the ECA", the President of the House of Representatives said.

Lazaros S. Lazarou and Zacharias Koulias, Chair of the Public Accounts Audit Committee, making press statements at the House of Representatives

1 Special report No 27/2016: Governance at the European Commission — best practice?

2 Special report No 10/2016: Further improvements needed to ensure effective implementation of the excessive deficit procedure

In the context of his visit in Cyprus, Lazaros S. Lazarou had meetings with Harris Georgiades, Minister of Finance, the Auditor General, the Accountant General, and heads or representatives and staff of national authorities responsible for the management and audit of EU funds.

The presentation of our 2015 annual report received extensive media coverage in the Cyprus national news agency, the press and television. Lazaros S. Lazarou was invited to be a guest on the main news broadcast of one of the most popular TV stations in Cyprus (ANT1 TV).

TV studio – "ANT1 NEWS", main news broadcast of 18 October 2016

Two Special Reports on water quality related issues (Danube river basin) presented to water professionals at international conferences

By Marion Colonerus, principal manager

Also technical reports have their audience

Early October I had the opportunity to present Special Report 2/2015 *'EU-funding of urban waste water treatment plants in the Danube river basin: further efforts needed in helping Member States to achieve EU waste water policy objectives'* at a World Water Congress.

This World Water Congress and Exhibition[1] was organised by the International Water Association (IWA) and took place from 9 to 14 October 2016. The Conference was centred around five thematic tracks: (1) water and waste water processes and treatments, (2) enabling progress with good governance, sustainable finance and ICT, (3) water quality, safety and human health, (4) recharting the course of water, (5) cities, utilities and industries leading change.

THE INTERNATIONAL WATER ASSOCIATION (IWA)?

IWA members and staff are situated in 130 countries worldwide, forming the largest international network of water professionals working towards a water wise world.

One of the aims is to place water on the global political agenda and to influence practice in regulation and policy making.

The strategy consists in connecting people, pioneering science, offering support and recognition to innovators in the world of water and developing and promoting best practices.

Source: www.iwa-network.org/about-us

There were more than 4 500 participants present at the congress. Over 130 sessions and workshops were organised where papers selected by IWA were presented.

1 www.iwa-network.org/event/world-water-congress-exhibition-2016/

In total IWA had received around 1 500 papers as a result of its call for papers2. The IWA Committee selected around 30% for oral presentation at the Congress. I participated in this call by preparing a paper on Special Report 2/2015. As the paper passed the selection procedure I was given the opportunity to present the content of the Special Report at one of the sessions.

ALTERNATIVE WWT CONCEPTS — Room M1 Technical

Chair: **Arash Zamyadi** *Unsw, AU*

10:30 Introduction

10:35 Novel Process For Removal Of Phosphorus Based On Crystallization-filtration Using Limestone Material *Hyangyoun Chang, University of Science and Technology (KR)*

10:55 Performance And Sustainability Of Urban Waste Water Treatment Plants In Four Countries Of The Danube River Basin *Marion Colonerus, European Court of Auditors (LU)*

11:15 Removal Of Anthropogenic Chemicals In Selected Waste Stabilisation Ponds In Western Australia *Yolanta Gruchlik, Curtin University (AU)*

11:35 Large-scale Ozonation For Advanced Treatment Of Municipal Wastewater - Design And Dimensioning *Christopher Keysers, Wasserverband Eifel-Rur (DE)*

11:55 Closing summary

The presentation was surrounded by more technical, research-related presentations, also to give the audience another perspective on issues related to waste water treatment plants

Source: Congress programme

Considering the subjects discussed at the Congress, our Special Report 2/2015 captured well the most important issues currently discussed by water professionals around the world.

An IWA Specialist Group on diffuse pollution[3] and eutrophication also used the opportunity of the Congress to organise a meeting. There I could inform the participants about Special Report 23/2015 *'Water quality in the Danube river basin: progress in implementing the water framework directive but still some way to go'* and Special Report 3/2016 on *'Combating eutrophication in the Baltic Sea: further and more effective action needed'*. Indeed for both reports diffuse pollution was one of the main issues addressed.

As a result I was invited as plenary speaker at the IWA Regional Conference on Diffuse Pollution and Catchment Management[4] which took place in Dublin from 23 to 27 October 2016. I was given one hour to present our audit conclusions which were well received by the audience.

Conclusion

Technical reports have their audience and their conclusions and recommendations can be a useful contribution for experts, in this case water professionals, who can influence politicians and public opinion in their aim to place water on the global political agenda.

2 Papers (4 pages following an IWA template) were to be submitted a year before the Congress. Once selected a further paper (8 pages) was to be submitted.

3 Pollution caused by a variety of activities for which there is no specific point of discharge. For example agriculture is a key source of diffuse pollution.

4 www.dpcm2016.com

Special report N°29/2016

Single Supervisory Mechanism - Good start but further improvements neede

In 2012, EU leaders decided that euro-area banks were to be brought under supervision of the Single Supervisory Mechanism (SSM), in which the pivotal role would be played by the ECB, but national competent authorities would also have to perform many functions. This report examines how the ECB set up the SSM how it has organized its work, and which challenges it faces.
We found that a complex supervisory structure was put in place relatively quickly but the complexity of the new system is a challenge especially since the new mechanism remains too heavily dependent on the resources of the national supervisors. Thus, despite its overall responsibility, the ECB has insufficient control over some important aspects of banking supervision.
The information provided by the ECB was however not enough for the ECA to fully assess whether the ECB is managing efficiently the SSM in the areas of governance, off-site supervision and on-site inspections.

This report was published on 18 November 2016 and is available on our website www.eca.europa.eu.

Special Report N°/2016

Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short

In order to respond to climate change and the associated substantial investment needs, the EU has agreed that at least 20% of its budget for 2014-2020 should be spent on climate-related action. We found that ambitious work was underway and that, overall, progress had been made.
However, there is a serious risk that the 20% target will not be met without more effort. The implementation of the target has led to more, and better-focused, climate action funding in the European Regional Development Fund and the Cohesion Fund. In the European Social Fund, and in the areas of agriculture, rural development and fisheries, however, there has been no significant shift towards climate action.

This report was published on 21 November 2016 and is available on our website www.eca.europa.eu.

Chamber IV looking to the future

By the Private Office of Baudilio Tomé Muguruza, Dean of Chamber IV

On Friday 7th October, Chamber IV held a successful Annual Seminar, in an event that brought a twist to usual proceedings. The seminar represented an opportunity to bring colleagues together and report on the latest work of the Chamber. This year, with the reform in mind, the aim was to break down barriers and foster an open exchange of ideas about the work and future of the Chamber and the Court.

The event began with welcomes by Tomé Muguruza, Dean of Chamber IV, and the ECA President Lehne. Then, the Director Mark Crisp gave his speech on the outlook for the Chamber and the challenges it faces after the reform.

The centrepiece of the seminar was the World Café, organised to challenge all staff to critically consider the Chamber and Court's work on a range of issues in an open-minded and relaxed environment. To accomplish this, several 'round tables' of eight people were set up in the room, each with a permanent host who posed a single question related to the Chamber and Court's work.

After 15 minutes at each table, the staff switched tables, leaving the host and their question and moving to another. Numerous issues were covered, each drawing interesting ideas from Chamber IV staff, some of which are included below.

How can the Court improve the perception of the EU by its citizens?

- Increase emphasis on positive examples found in investigations, while maintaining balance.
- Explain better the error rate to avoid confusion.
- Explicitly highlight what might be fraud, but also that error does not mean corruption or fraud.
- Highlight comparisons with Member State examples
- Others argued that this is not for the Court to assume this function.

How can we make our special reports more interesting and relevant to readers?

- Involve staff from communication and translation more.
- Measure usage and readership to assess how to better target products.
- 'Citizen Hotline' or a post-report discussion online with comments sections and 'TripAdvisor'-style ratings.
- E-link all underlying documents.
- Increased usage of video content.
- Presentation of reports specialised and creative, or timed to coincide with other conferences or events.
- Target citizens or target experts and then differentiate by type of client.

How much certainty do we need in an ever changing world?

- A vote showed an even split between those who favour certainty, and those who do not.
- Preferences depend mainly on personality and responsibilities (age!)
- Certainty helps with both professional and personal long-term decisions.
- Total uncertainty was undesirable as a base level is required to create or exploit uncertainty and freedom in other areas of life.
- Certainty as facilitator of progress vs. certainty as a cause of stagnation.
- "Certainty is important, but not too much, otherwise life would be boring."

How will Brexit affect the Court's work?

- We may lose important staff (Directors and Principal Managers).
- The working language of the Court will remain English, but others might become more prominent.
- UK plays an important role in research and other sectors.
- It's a blow to the EU project, which should stimulate change.
- The Court should try to be balanced with its messages to help foster a positive view of the Union.
- Perhaps more work will be done by the SAIs in future.
- Others argued that there will be no impact whatsoever.

What is the dark side of teamwork?

- Relations between team mates:
- Personal problems/conflicts
- Dominant or passive members (free riders)
- Lack of individual recognition
- Different levels of motivation
- Direction:
- Lack of leadership, or leadership skills in the group
- Composition of the team
- Lack of stability in team members

How can we make the Court a better place to work?

- Increase in social activities e.g. for newcomers to meet colleagues who share interests and more promotion of existing sports team.
- Improvement in communication as all staff highlighted it was difficult to stay updated.
- Other important points included:
- Closer and more structured mentoring for recent, especially young, arrivals.
- A focus on using less paper rather than taking bins away.

How can we work better together?

Improve communication among the team members through:

- Personal/direct interaction
- The better and quicker sharing of information
- Willingness to cooperate
- Clear definition of roles and responsibilities (too early to measure impact of reform on roles)
- The use of tools such as Subject Briefs

How can the DAS work and the Annual Report be improved?

- Make the one-line purpose of the AR understandable to all, rather than requiring qualifications.
- Error rate wording and conclusions too complex, leading to frequent misunderstanding that reflects negatively on the Court, the EU, and the Member States.
- A return to 'integrated audits' using performance and compliance together to create dynamic reports.
- Alter the focus away from the 'transaction approach'.
- Using the potential of data more e.g. data mining, IT systems in creating and checking accounts/reports/transactions.

For the last part of the session, all the staff in the Chamber participated in a teambuilding exercise, where success depended on their ability to be creative and determined while working together against the clock towards a common goal.

Overall, this year's Chamber IV Seminar was a very positive event with plenty of teamwork and communication between colleagues, as emphasised by Mr Šadžius' closing remarks.

We are looking forward the next year's Seminar, which will be held on Friday, 6th October 2017.

ISSN 1831-449X

Main Contents

02 A HIGH-LEVEL ECA CONFERENCE ON EU FINANCIAL INSTRUMENTS

07 COMMISSION'S GOVERNANCE NEEDS AN UPDATE

11 THE CONTACT COMMITTEE, BRATISLAVA AND QUESTIONS TO KAROL MITRIK, PRESIDENT OF THE SUPREME AUDIT OFFICE OF THE SLOVAK REPUBLIC

15 "EU SUPPORT TO MARITIME TRANSPORT : ... IN TROUBLED WATERS»

20 TWO RECENT AUDITS ON KEY CONTROL MECHANISMS OF EU SUPPORT TO FARMERS

22 PRESENTATION OF THE 2015 ECA ANNUAL REPORT IN SLOVENIA AND CYPRUS

For more information

European Court of Auditors
12, rue Alcide De Gasperi
1615 Luxembourg
LUXEMBOURG
eca-journal@eca.europa.eu

eca.europa.eu

@EUauditors

EUAuditorsECA

QJ-AD-16-011-2A-N