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Strategy is the central theme of this Journal. Which course do we want to set for the future? Or which course do we have to sail in order to survive the upcoming storms? These are questions all organisations face and have to decide upon, either with reason and after research, or haphazardly. For the ECA, as a public institution, and even more so as a public audit institution, there is another, even more important question: with which course can we add the most value to society, particularly the European Union?

During the past year the ECA has been through a soul searching exercise to find the best focal point and objectives for our new strategy. To find such a point is crucial because, as a saying goes, *what is the use of running if you are not on the right road?* We are in the business of providing assurance - be it whether rules have been complied with or performance or intended effects have been achieved. For this the ECA chose as purpose "Fostering trust through independent audit" (see page 5).

But what is the meaning of this strategy; what does it imply? Only when an auditor is trusted he or she can be relevant for society. So credibility is key and this requires, first and foremost, an identifiable adherence to a number of values. This is highlighted by ECA Member Lazaros S. Lazarou (see page 08) when he speaks about bringing governments closer to citizens and «ethical conscience». The latter may be self-evident for many of us within the ECA but what counts is how EU citizen see us in the light of values such as objectivity, integrity and moral courage (see page 30). These values make the audit profession and they form the guidance for implementing the four strategic objectives the ECA identified in its 2018-2020 Strategy.

After strategy comes planning and Sandra Diering fills us in on how the new programming procedures help to translate objectives into concrete audit topics, addressing the strategic objectives (see page 11). Some of the actions that are and will be undertaken to implement the third strategic objective *Get clear messages across to our audiences*, relate to the ECA being active in social media (see page 20), establishing a more continuous dialogue about ECA products (see page 35) and increased efforts to communicate in and beyond Brussels (see page 17). The fourth strategic goal is *Gear our organisation to our products*, including exploiting technology to innovate audit work. How this can be done can be read from page 22 onwards.

However beautiful a strategy may look on paper, in the end what counts are results. After adoption the real work actually starts, and each and every ECA staff member may now assess how he or she can contribute to implementing the new strategy. In that way we can all give an individual meaning to how we reach the ECA's common purpose: contribute to fostering trust in the EU.

Gaston Moonen

The ECA strategy for 2018-2020 : Fostering trust through independent audit

By Andreas Bolkart and Gaston Moonen, Directorate of the Presidency, ECA

As a public institution the ECA has to reassess regularly how to increase its relevance for the European citizen and add value. In accordance with good practice the ECA draws up multi-annual plans and sets strategic objectives. The ECA has recently published its strategy for the upcoming three years. What are the main drivers for its strategy and which objectives have been set for the 2018-2020 period?

Strategy development: a participatory process

As the EU's external auditor, the ECA's mission is to contribute to improving EU financial management, to promote accountability and transparency and to act as the independent guardian of the financial interests of the citizens of the Union. The ECA warns of risks, provides assurance, indicates shortcomings and successes, and offers guidance to EU policymakers and legislators on how to improve the management of EU policies and programmes and ensure that Europe's citizens know how their money is being spent.

To implement its mission, achieve strategic change and provide broad orientation, the ECA has been using multi-annual strategies since 2008. The 2008-2012 strategy was followed by the 2013-2017 strategy and the 2018-2020 strategy was adopted by the Members of the ECA and shortly after published in July 2017.

The strategy development was led by a working group consisting of the ECA Members President Klaus-Heiner Lehne, Danièle Lamarque and Alex Brenninkmeijer (chair) as well as Secretary-General Eduardo Ruiz Garcia. The group was supported by Andreas Bolkart and Gaston Moonen. We used the INTOSAI Development Initiative's strategic planning handbook

The preparatory work for the new strategy started with a forward looking analysis of our environment. This included current and expected future major EU policy trends, developments in EU financial management as well as the developments in our professional environment, such as new audit methods and technology.

The strategy development process relied heavily on consultation, both internal and external. Externally the Court reached out to Members of the European Parliament, EU Member State representatives, the European Commission, sister organisations and non-institutional stakeholders such as academics, think-tanks, NGO's and also the private audit field. Issues stemming from our regular contacts with stakeholders, such as in the context of the annual discharge of the European Commission, or the annual audit planning exercise, were also considered.

The strategy was discussed among ECA Members – including at the Members' 2016 annual seminar - and during three rounds of focus group discussions with ECA staff. The participation in these groups was open to everybody and advertised internally. Additionally, there was an internal exposure period of the draft strategy document.

"Trust" as a focal point

In its new strategy the ECA identifies 2018-2020 to be a crucial period for the European Union with pivotal decisions to be taken. The aftermath of the financial crisis, migratory pressure on EU borders, the international security situation and the challenges of climate change have an impact on the way the EU is governed at regional, national, intergovernmental and supranational level. Developments in overall EU policy, its funding - also in view of Brexit -, EU financial management and the ECA's professional environment pose formidable challenges but also opportunities for the ECA.

Successfully addressing the challenges of the Union will require clear, reliable and accessible information for the EU citizen on what has been achieved with EU money and other interventions. People need to be able to see that the EU acts with integrity, applies the rule of law, spends taxpayers' money carefully, is clear about its objectives and achieves the results it has promised. Failure to demonstrate to EU citizens that common challenges are met and positive results are achieved with EU money and EU action causes a risk that the trust of citizens in the EU may be diminished.

The ECA believes it is well placed to help address these challenges and opportunities of EU governance and appropriate spending of EU funds. Through its independent audits the ECA can provide insight into what works and what does not work in EU spending and EU action, help EU citizens decide if EU institutions deliver results for them and thereby contribute to fostering trust in the EU. To do so, ECA audits also need to relate to the concerns of its ultimate stakeholder, the European citizen. Ultimately the EU is not about figures, but about people.

ECA strategic goals for 2018-2020

To seize new opportunities and enhance its service to EU citizens the ECA has identified four strategic objectives:

Goal 1: Improve the added value of the Statement of Assurance in the context of today's EU financial management. Positive developments in the management and control systems give the ECA the opportunity to take a fresh look at the Statement of Assurance (SoA). The ECA annually provides an opinion on the reliability of the EU accounts and the legality and regularity of the underlying transactions. For the 2018-2020 SoA approach the ECA will, while remaining in full accordance with international public-sector audit standards, assess the options of using the legality and regularity information provided by auditees, including the corrective action they have taken. This would lead to a reduction in the ECA's own direct testing of payments and increase the cost-effectiveness of its SoA work. In this context the ECA will consider a wider renewal of its Annual Report.

Goal 2: Increase the focus on the performance aspects of EU action. Besides assurance on compliance another major question for most EU citizens is whether EU spending and action led to tangible results and whether impact was achieved in an efficient way. In assessing performance the ECA will focus for example on: the added value of action at EU level compared, where feasible, with action at other levels; providing rapid answers to pressing and targeted questions on EU action; promoting good examples and practices of the way EU funds and policies are implemented, providing insight into geographical differences to promote mutual learning; assessing the quality of prevention and detection systems against fraud and corruption with EU funds.

Goal 3: Get clear ECA messages across to the audiences of the ECA. The ECA can only manage to contribute to trust in the EU through its products if it reaches its stakeholders, ranging from political oversight authorities like the European Parliament, to EU citizens directly. Specific actions foreseen for better reaching out are: formulate consistent key messages and identify horizontal issues based on findings in many areas and streamline them into the entire ECA product range; increase efforts to create a compelling narrative, with a clear structure and avoidance of jargon, with the audit evidence gathered and data analysed; communicate better on planned and ongoing work and create briefing products to maximise impact of ECA work.

Goal 4: Gear the ECA organisation to ECA products. Following its recent reorganisation making the ECA more flexible and more focused on audit, the ECA aims to use its renewed organisation to achieve the above-mentioned three goals. This means for example: better benefit from its staff's knowledge by improving links and exchanges between staff but also with expert communities outside the ECA; exploit the opportunities offered by technology for innovation in audit work, like optimizing the use of *big data* and mass text analysis; when planning audit work, be more

The ECA strategy for 2018-2020 : Fostering trust through independent audit *continued*

responsive and flexible to developments in the European Union, while taking into account the five broad priority policy areas the ECA has established for 2018-2020.

What is next?

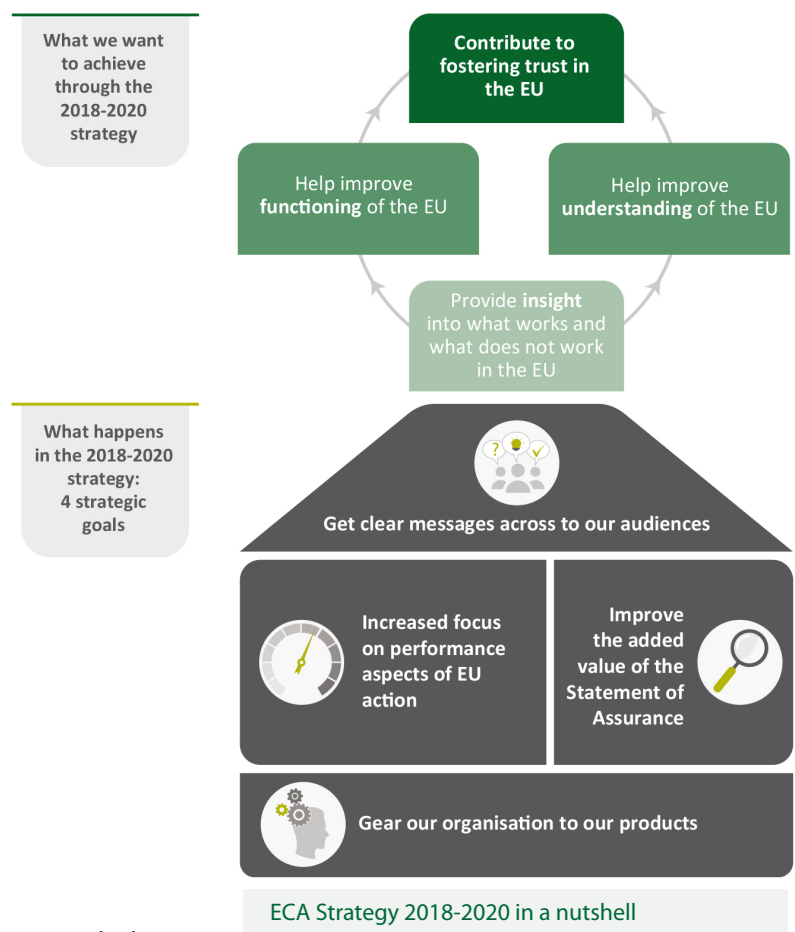
At the ECA, the implementation of the 2018-2020 strategy has already started. A technical working group chaired by the Secretary General is currently working on a specific proposal to implement goal 1 concerning the SoA. The ECA College will discuss this proposal in the autumn of 2017 and, if adopted, the revised approach will be implemented starting with the work for the 2018 SoA.

Regarding all four strategic goals, the ECA has adopted an action plan that identified specific activities and assigns responsibilities to all parts of the organisation. Work on these activities has already started or is scheduled for the next year. Furthermore the ECA will use its annual work programming cycle to plan, execute and monitor the implementation of its strategy.

The 2018-2020 strategy also serves to influence the mind-set of the people at the ECA to consider how each individual can contribute to achieve the strategic objectives. It will depend on each and every one's contribution to transform the strategy into a tangible reality.

Helping the EU perform better

2017 marks the 40th anniversary of the ECA. Through its SoA, its reports on performance of EU programmes, its opinions on proposed legislation and its attention for possible risks the ECA has contributed to significant improvements in EU financial management over the past decades. As the EU's external auditor it applies and promotes accountability, transparency, professionalism, integrity, impartiality and responsiveness. This has enabled the ECA to play a key role in the EU accountability process and stimulate a learning government. To continue to do so the ECA has recalibrated its strategic objectives to provide insight and understanding in complex EU processes. By revealing what works and what does not work in EU spending and EU action the ECA helps to improve the way the EU functions and is understood. This in turn will contribute to fostering trust in the EU's ability to address current and future challenges. With the implementation of its new strategy the ECA aims to enhance its added-value for policy-decision makers and EU citizens.



See for the text of 2018-2020 Strategy:

http://www.eca.europa.eu/Lists/ECADocuments/STRATEGY2018-2020/STRATEGY2018-2020_EN.PDF.pdf

Bringing governments closer to citizens and business - ACCA event hosted by the ECA

By Lazaros S. Lazarou, ECA Member

This is an ECA Journal version of an article written for Accounting and Business (AB), the member magazine of the Association of Chartered Certified Accountants (ACCA). In AB's special "ethics" edition Lazaros S. Lazarou FCCA¹ (ECA Member) looks at the work of the European Court of Auditors (ECA) and the role of ethics in building public trust across the EU's institutions. What will drive auditors, whether certified accountants in the private sector or public sector auditors, in the future? Lazaros S. Lazarou probes into commonalities and mutual learning and looks forward to an upcoming ACCA event in Luxembourg.



Lazaros S. Lazarou, ECA Member

ACCA event hosted by the ECA

On 26 September 2017 the ECA hosts the ACCA event *Bringing governments closer to citizens and businesses in a digital age through ethics and trust*. The event builds on ACCA's report *Professional accountants – the future: 50 drivers of change in the public sector*². Published in late 2016, the report rightly indicates that *professional accountants are generally viewed as the ethical conscience of organisations and as a result they carry a particular responsibility for ensuring that trust in government organisations is maintained at all times*³.

The ACCA event explores two themes: "digital transformation challenges & opportunities" and "ethics, integrity and accountability of public sector".

The Association of Chartered Certified Accountants (ACCA) is a global body for professional accountants. Active in both the public and private sectors, it has almost 200,000 qualified members and close to 500,000 students in 180 countries worldwide. At its upcoming event on 26 September 2017, hosted by the ECA, ACCA will raise questions such as how to rebuild damaged public trust and what role public sector accountants can play in this process. A recent ACCA global study explored which emerging drivers of change might have the biggest impact and which skills will be required for the next ten years.

ECA 2018-2020 strategy

The two themes are key elements of the ECA's 2018-20 strategy, *Fostering trust through independent audit*. The public sector and its auditors, including the EU and the ECA, face legitimate questions. The ECA is well placed to address the challenges and opportunities of EU governance and the appropriate spending of EU funds and therefore, through independent audit, to help EU citizens decide if they can trust EU institutions to deliver results for them. As the EU's external auditor, the ECA has a three-part mission:

- to contribute to improving EU financial management
- to promote accountability and transparency
- to act as the independent guardian of the financial interests of EU citizens.

We warn of risks, provide assurance, indicate shortcomings and successes, and offer guidance to EU policymakers and legislators on how to improve the management of EU policies and programmes and ensure that Europe's citizens know how their money is being spent.

Transparency and accountability

While the public sector differs from one country to another, a common aspiration is to serve the public and protect the public interest. The aims and consequences of public sector actions are driven by circumstances, resources and (political) choices. As such, ethics is at the root of trust in the public sector⁴. Transparency and full accountability are key elements in ensuring ethical behaviour, providing options for the wider public to uncover possible unethical behaviour.

As the ethical conscience of organisations, professional accountants and the ECA as auditors should make it their mission to maintain ethical values. In its 2018-2020 strategy the ECA emphasises its core values of accountability, transparency, professionalism, integrity, impartiality and responsiveness.

In recent years the ECA has vigilantly overseen how EU rules and procedures on compliance audit have been applied in EU spending. However, following rules is not enough. Spending taxpayers' money should benefit the community as a whole, and value for money is as important if not more important. So the ECA has steadily increased its work on reporting on the "EU-added value", through its performance audit work. In coming years we will strengthen our annual reporting on performance and information on EU action in member states and regions.

In applying its 2018-20 strategy, the ECA plans to focus further on assessing the performance of EU action by:

- improving our assessment of added value
- taking a broader view of EU action
- providing rapid answers to pressing and targeted questions
- better comparison of methods and results
- increasing the impact of our recommendations on achieving improvements
- providing insight into EU action against fraud and corruption.

Our scrutiny of EU action can increase trust in the EU only if we manage to communicate our findings and recommendations clearly. So in our upcoming annual report, to be published 28 September, we use less technical language where possible and a more visual presentation.

European Commission governance

In 2016 we published a special report on governance at the European Commission (SR 27/2016). This also addressed the follow-up of internal and external audit work and recommended that the EC establish an audit committee with a majority of independent, external members and expand its mandate to cover risk management, financial reporting and the work and results of ex post verification units and audit directorates.

We will continue to address high-level governance and ethical topics, as for example in planned work on conflict of interest and ethics in EU institutions.

Ethics is at the basis of public-sector work including that of independent auditors. As auditors we help citizens by providing assurance on information they receive. The ECA's 2018-20 strategy aims to foster trust through independent audit. ACCA's reports and events help us to make this happen.

Endnotes

1 Lazaros S. Lazarou, Dean of Chamber V and Member for the Annual Report, is a Fellow of the Association of Chartered Certified Accountants (FCCA). ACCA's AB magazine published a background interview with Mr Lazarou in its 2017 January issue (<http://www.accaglobal.com/uk/en/member/member/accounting-business/2017/01/interviews/lazaros-lazarou.html>)

2 <http://www.accaglobal.com/gb/en/technical-activities/technical-resources-search/2016/december/50-drivers-of-change-in-the-public-sector.html>

3 *Professional accountants – the future: 50 drivers of change in the public sector*, page 23.

4 See for example Anthony Harbinson's introduction to the closing panel of ACCA's 2017 Public Sector Conference: "How to limit corruption in public services and the role for accountant." http://www.accaglobal.com/content/dam/ACCA_Global/Technical/pubsect/how-to-limit-corruption-in-the-public-services-anthony-harbinson.pdf

How to select an audit task - the ECA's new programming procedures

By Sandra Diering, Directorate of the Presidency, ECA

With our 2018-2020 strategy just adopted the challenge will be select concrete audit topics which ensure that the new ECA strategic objectives are realised. The ECA work programme is the instrument to do so on an annual basis and early 2017 new programming procedures were adopted to facilitate meeting the new strategic challenges. What has changed and how does the process work?

Introduction

Our main role as the EU's external auditor is to verify that EU funds are spent in accordance with the relevant rules and achieve the intended objectives. In order to fulfil this obligation, it is essential that we identify and select relevant audit tasks and time them to maximize their impact.

The programming process helps us identify, select and plan audit tasks. It translates the higher level objectives of the multiannual strategy into operational objectives in the form of audit tasks. The final product of this programming process is the Annual Work Programme (AWP).

In January this year we adopted new programming procedures, which were to be applied for the first time for the Annual Work Programme 2018. The new procedures reflect the changes already introduced at organizational level with the ECA's reform, which came into force in January 2016.

The new procedures also take into account the recently adopted ECA strategy for the 2018-2020 period, which explicitly states that "our agility and innovative capacity depend on how we steer our future work. In planning our work, we will make this process not only more responsive to the needs of our stakeholders but also more flexible so as to be able to react to developments in the Union."

In this article we would like to explain the changes introduced in the context of the ECA's programming, illustrate the reasons for these changes and finally conclude by some reflections on the first year of applying the new procedures.

What has changed in the process and why

The main objectives of the new programming procedures were to **adopt the AWP earlier**, to systematically **involve our main stakeholders**, to **increase the flexibility** of the process and the **potential impact** of our work and, finally, to **save time and resources** when drawing up the AWP.

In order to achieve these objectives, a number of changes have been introduced at all stages of the programming process:



The basic approach

The new programming process is still an annual process but represents a move away from the decentralized system of recent years towards a coordinated **more centralized approach** with one single work programme for the whole ECA instead of individual work programmes for each audit chamber.

However, we are convinced that the wider perspective at central ECA level needs to be complemented by the specific knowledge and expertise of the audit chambers in order to develop its full potential. The way we understood and designed it, programming is therefore, by its very nature, still very much a **cooperative process**, with the different audit chambers being consulted and actively involved at all stages (e.g. chambers suggest audit ideas, which are reflected in the selection as well as in the detailed planning of individual tasks for the AWP).

The main reason for changing the approach was to ensure a well-balanced portfolio for the ECA as a whole with the ultimate objective of increasing the potential impact of our work. Furthermore, the elimination of work programmes at different levels should save time and resources.

Priorities and risk review

The ECA strategy is the basis for the programming, as it defines the general direction and strategic objectives of our work. More specifically the new strategy for the 2018-2020 period defines five **priority areas** for the ECA's work in the coming years:



Consequently, the annual identification of priorities, which was an integral part of the programming exercise in previous years, is no longer needed.

The next step in the programming process is an analysis of the risks in the different policy areas. As from the 2018 programming exercise, the policy and risk review has been replaced by standardized ECA-wide **policy scans**. Policy scans are an analysis of a policy area, taking into account risks, materiality, recent policy developments and current or recently finalized work by the Court or other relevant actors. They also indicate any specific issues which might be relevant for future audits. Policy scans are updated on an annual basis by the audit chambers responsible.

The standardization of the risk review in the form of policy scans ensures consistent quality of assessment throughout the ECA and allows risks to be compared across different policy areas.

Audit ideas and Proposed Audit Tasks (PATs)

The selection of audit tasks is based on **Proposed Audit Tasks (PATs)**. A proposed audit task builds on the policy scan for the policy area concerned. It is a relatively detailed assessment of the main characteristics and risks of the audit area and the reasons for carrying out the task.

With the new programming procedures, we have not changed the basic concept of the PATs. However, we have introduced "**Audit ideas**" as an additional step in the process. Audit ideas only state the potential audit subject and very briefly summarize the main reasons for including the task in the AWP. They are considerably shorter than the fully elaborated PATs.

As only a certain number of audit ideas are then selected to be further expanded into PATs, the additional step avoids spending time on drafting a large number of proposals, only very few of which can be selected for the AWP.

From the selection of audit tasks to the Annual Work Programme

Among the PATs we subsequently select those which, on the basis of their potential impact and alignment with the ECA's priorities, are considered **high priority** or **priority** and should therefore be included in the AWP.

High priority tasks are, by definition, of particular importance and often reply to the key concerns of our stakeholders. The new procedures therefore provide for these tasks to be brought forward so that the result of the work can be published before the end of the AWP year.

The fact that we have to provide the best reply we can to the key concerns of our stakeholders means that the **European Parliament** (EP) discharge decisions and the suggestions received from the different EP committees are an important factor in the selection of audit ideas and PATs, together with the feedback received from other stakeholders, such as the general public. In particular, we already engage in an exchange of views early in the year with the EP's Conference of Committee Chairs (CCC) and systematically analyse their suggestions for potential audit subjects.

With the new programming procedures we have also tried to promote a **wider variety of products** by identifying the most suitable type of product (special reports, landscape reviews or briefing papers) for all the tasks included in the AWP.

To increase its relevance we also changed the **focus of the AWP** from "tasks to be started in the AWP year" to "tasks to be finalized in the AWP year" as we believe that, especially for our external audience, it is more important to know which products they can actually expect in a given year than which tasks will be started.

General simplification measures

In order to facilitate and speed up the planning process as well as the actual selection of tasks, we introduced **standard templates** for almost all steps in the process (policy scans, audit ideas, AWP). In addition, the resource planning for all tasks not directly related to audit is now based on **flat rates**, which are used consistently throughout the Court.

Finally, we considerably **shortened the actual AWP document** by only including information which was essential for deciding which tasks should be carried out or information which was important for the AWP as a planning tool.

Towards a more continuous dialogue

By Mark Rogerson, Directorate of the Presidency, ECA

A key goal of the ECA's 2018 – 2020 strategy is to get clear messages across to our audiences. One of the ways identified to achieve that goal is to “establish a more continuous dialogue about our products”. Mark Rogerson, the ECA spokesperson, enlightens us what actions have recently been undertaken or are foreseen to longer capture the attention of the different audiences we serve regarding an audit done by the ECA.

It is certainly the case that during the last few years, the amount of media coverage and social media comment devoted to our special reports has increased significantly. This is not just a coincidence; it is partly a result of our more targeted approach to communications via press and social media and also thanks to our choice of audit topics, which are attracting greater public interest. But up to now we have only really had one opportunity with each report to publicise it in the media, build awareness among relevant industry stakeholders and generally raise the profile of the ECA – namely, on the day of publication. So we do have a dialogue about our special reports, but it is a relatively short one.

How to get more leverage from an ECA report

With this in mind, we have been looking at ways to “leverage” the effort that goes into our special reports: how can we achieve more publicity from the same body of work, over a more extended period of time, without increasing the workload of the audit teams? As a result we have launched a pilot exercise which includes two new strands of promotional activity, to be used on a selective basis:

- firstly, we have begun announcing the start of audit tasks which we believe will be of particular public interest;
- secondly we will soon be publishing “ECA Audit Briefs” on a selection of our newly-started audits. The Audit Briefs will provide background information about the audits based on information already publicly available.

This selective approach is in line with our move away from a “one-size-fits-all” approach to media handling and is largely made possible by our computerised database of press and stakeholder contacts (the SMS). As with the decision whether or not to hold press or stakeholder briefings in Brussels, the scale of our media activity is determined by the communication value of the publication; while the SMS allows us to target the information we send out very precisely.

Building a story around an audit instead of a publication

Of course, our planned audit tasks are already set out in the Annual Work Programme (AWP) just before the start of each year. The AWP is useful to MEPs, journalists and many other stakeholders in providing an overview of our upcoming activity. But it is easier for the media to build a story round a particular announcement about a particular audit. And it is further evidence of the increasing interest in our work that for many journalists the mere fact that the ECA is to look at a particular subject is intrinsically newsworthy.

So far, we have issued press releases announcing the start of several audits, including anti-Radicalisation measures, Broadband and Air Quality, with attendant social media activity. All generated a good level of coverage and as well as raising awareness they prompted responses which have allowed us to further build our database of interested journalists and stakeholders. This in turn helps ensure a more continuous dialogue.

The “start” of an audit is taken to be the adoption of the audit proposal – the Audit Planning Memorandum (APM) - by the Chamber concerned. The press release is drafted by the DOP communications team in close collaboration with the reporting Member and their private office as well as with the audit team, in the same way as we already do for special

reports. There will be times when the identities of the countries to be visited for an audit will have communication value, for example because of high levels of public interest in these countries about the audit topic. In such cases, we can publicise the names of the countries in their national media, once the relevant SAIs have been informed.

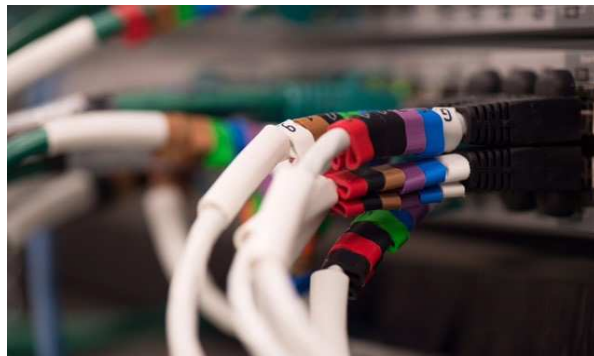
Creating new briefing products

The second strand of this leveraging exercise involves making use of the comprehensive factual information on our audit topics contained in our APMs. Our new “ECA Audit Briefs” will provide background about the audit policy area and may also include information on our risk assessment, explaining why we consider this subject to be relevant and why we have selected the specific Member States to be visited during the audit. They will not divulge any details on our audit approach nor will they comment on any expected outcome of the audit.

The Audit Briefs will be around 12 to 15 pages long and will be designed as reference documents for all those interested in the particular policy area. They will also include a section in which interested parties are invited to contact the audit team via a dedicated and task-specific email address. This is aimed at encouraging the more interactive approach envisaged in the strategy and may also produce helpful suggestions during the audit.

The publication of the Audit Briefs will usually follow some time after announcements of upcoming audits, once the APM has been adopted by the Chambers and the audit has been notified to the Member States and/or audited bodies. A template has been designed to give a consistent look and feel to the Audit Briefs and a number are already being drafted. The first two Briefs – on Broadband and Air Quality – are expected to be published during September/October.

Taken together, these two new activities will also allow us to engage with our audiences more extensively and to achieve a more balanced presence in the press and on social media throughout the year.



Communicating with the press and stakeholders – in & beyond Brussels

By Damijan Fišer, Directorate of the Presidency, ECA

The ECA communicates the institution's work to the EU's citizens through the press and other media. And as of recent, also through increased and increasing communication with the various public interest groups such as Non Governmental Organisations (NGO). The ECA's press officer Damijan Fišer updates us on how the ECA reaches out to the media and which new activities have been undertaken or are foreseen to get ECA messages better across to its audiences.

Increasing media outreach across the EU

The European Union boasts a linguistically and interest-wise diverse media landscape with countless media outlets across the 28 Member States. All major titles – be it broadcast, online or classic paper (i.e. the threatened, yet resilient breed) – have their representatives in Brussels. These correspondents follow the work of the European institutions and report back home on the EU. Brussels is one of the largest international media centres, claiming just under 1500 journalists and other media from almost 500 different outlets, according to a research.

In addition to maintaining, and possibly upping the level of contact with the EU correspondents, our aim is also to increase our outreach in the Member States themselves, so that we can be in direct contact not only with their capitals, but also on the regional and local level. This in turn will enable us to communicate practical value of our work to the citizens who do not necessarily read the Politico, the Financial Times or the Frankfurter Allgemeine, but for whom our work may be equally important and who may not necessarily have been aware that the EU has an external auditor to safeguard its finances.



ECA President Lehne, NIK President Krzysztof Kwiatkowski and ECA Member Wojciechowski at a press briefing in Warsaw in February 2017

Meeting the press: personal contact and briefings

While we issue a press release or publish an online communication, such as a media advisory, for most of our publications, and get them to the journalists, we are aware that these alone cannot substitute for a personal contact. We thus ensure our permanent press presence in Brussels, largely through the spokesperson, where we talk regularly to the journalists from the main media covering our work: we have established regular contacts among those and we regularly meet and guide them through our upcoming outputs, for example, advising what reports are coming up in the next quarter. This is a very useful and appreciated practice: it gives the journalists a heads-up, while it allows us to gauge their interest in a particular report in the pipeline and to approach them in a targeted and trusted manner closer to the publication date. We may follow this up with an advance insight into the report's content and examine options for a further contact, for example through a one-on-one meeting or an interview with the ECA Member responsible for the report around the publication date.

In Brussels, in the International Press Centre, we also hold most of our press conferences (typically for the annual report) and more technical, background briefings (on our special reports). Located in the Residence Palace, near the HQ of the European Commission, almost adjacent to the Council of the EU and a stone's throw from the European Parliament, the centre hosts a number of media outlets, so we literally go where the press are.

The journalists are under perennial time pressure and on unceasing quest for stories, and we need to compete for the attention our messages may get with all the above sources and others. The journalists also have a varied interest in our reports and different journalists may cover different subject areas. We thus aim to target our communications and contact, so that we mainly reach out to those we think might be interested in our reports, based on research or previous coverage. Furthermore, we aim to field the teams for our briefings composed mostly of the auditors who have actually carried out the spot checks themselves, in the Commission and the countries audited. This ensures the information provided does not end at a more high-level presentation by the ECA Member, but actually gets down to the nitty-gritty and the journalists can get the answers to their questions from the real experts in the field. And not least, they can put a face to the EU auditors who did the ground work on the report, while the auditors get to be part and parcel of the communication process and feeling the value of their work being communicated, eventually, to the citizens.

Stakeholders meetings: reaching out to the civil society and interest groups

We aim to complement our personal contact with the journalists by reaching out to civil society - in particular to NGOs - and industry representatives, who are often an interested party for our reports. We do this through the stakeholders meeting, organized in parallel with the press briefings. While the stakeholders experts can relish the opportunity to hear the messages directly from the ECA Member and a team of auditors, as well as from other experts attending the meeting, we in turn get to hear their views, which we can take into account in any follow-up activities and also to get the visibility of our work via their (often widely followed) communication channels. Started as a pilot in 2016, we now hold stakeholders meetings on a regular basis for the reports we expect will stimulate a useful discussion and feedback. This year, for example, we have held stakeholders meetings for our reports on EU's revenue mobilization in Africa, control of EU's fisheries, refugee hotspots, and others. Building on the satisfying results we obtained, we aim to extend the practice to also cover the audits we are yet to carry out, in an attempt to scope the public interest and the perceived issues.

Press visits – a new fixture of the press programme

Luxembourg may not be attracting the international press corps in same numbers as Brussels, but we regularly receive the journalists also at our premises. Our annual “Spring presser” on our activity report, for example, has become a standard fixture in the Luxembourg press programme.

A new point on the Brussels press agenda is the annual visit to the Luxembourg-based EU institutions, a joint effort by the ECA together with five other bodies in Luxembourg. Organized for the fourth consecutive year this June, the visit was attended by some 50 Brussels-based correspondents from 15 countries. The purpose of the visit was to deepen their knowledge of the institutions’ activities, directly through on-the-record presentations and Q&A sessions with their top management and in most cases indeed with the president. At the ECA, they could learn more about the challenges and opportunities of the work of the EU auditors directly from the ECA President Lehne, but also about our audit process: presenting our special reports on food waste and on human trafficking, ECA Member Bettina Jakobsen explained our audit process in-depth and showed the breadth of the audit subjects we cover. In the remainder of the visit, the journalists also had an opportunity to talk to other ECA Members.



Brussels-based journalists visit the ECA for an on-the-record Q&A session, Luxembourg, 28 June 2017

As we aspire to communicate more and better directly with the media organisations and journalists in the Member States, we are looking forward to welcoming end of this month, together with other Luxembourg-based EU bodies, a visit of the journalists working in the countries themselves. We see this as an excellent opportunity to establish further contacts with the press across the EU, to help better explain the role of EU auditors and the value of our work for citizens.

ECA in social media: the challenge of being on every screen

By Juan Blanco Arellano, Directorate of the Presidency, ECA

They say if you are not online, you do not exist. But no matter how many social media you are involved in – if you do not have a good strategy behind, you risk becoming invisible. Below Juan Blanco goes into the current ECA activities on social media and what the ECA can aim for also in the light of the recently adopted 2018-2020 strategy.

ECA's place in the social media galaxy

The ECA history on social media started [on 15 March 2012](#) with our first tweet. This was barely three years after the EU pioneer on Twitter: the [European Parliament](#). From then on, we have widened our presence to the current main social media channels – [LinkedIn](#) (where 7.766 people follow us), [Facebook](#) (1.966), [YouTube](#) (633) and our latest incorporation: [Instagram](#) (128). In addition to our 5.202 followers on [Twitter](#), it leads us to a sum of over 15.000 ECA followers on social media. A modest count if we compare it with the 798.000 followers the [European Commission](#) have on Twitter only, but to be fair, still a quite respectable number that will no doubt grow in the near future.

We do need to increase the size of our audience but, as we state in our new ECA strategy, "...the EU is not about figures but about people." Unless we are able to **convince** EU citizens that what we are doing is essential for them, we will fail.

One strategy for a continuously changing world

Social media is a highly changing environment full of *trending topics*, hypes and viral news that – surprisingly for many- often sets the world's agenda, especially for mainstream media. Therefore, the importance of being online is essential to take part in the discussion and be able to find a place within the current affairs. Not being present on social media is like, for a company, having the opportunity to place an ad for free on a newspaper's front page and not taking advantage of it. But how can we reach the audience if each of us is able to create our own personal newspaper? As we state in our new strategy, this aspect has become even more important today as many information sources are competing for the attention of policy makers and implementers - something that is especially affecting social media.

If there is a necessary aspect that remains unchangeable in this ever-changing communication world, that is *trust* – especially now that we live in the era of fake news and hoaxes. Besides communicating our findings and recommendations clearly, to build up this trust we need to be a constant and reliable source of information, concurring with our recently increased range and quantity of our products. In order to achieve this we recently turned our social media strategy from an ad-hoc frequency into a daily planned schedule that - in a timely manner - aims to find the opportune content to be shared with each specific audience.

A good example of this could be the recent publication of our [corporate video on Facebook](#) using the restricted audience feature: depending on the language users had previously selected on this platform, they were able to see the video in their own





language. As a result, not only did we receive some engagement from followers that were idle due the fact they previously did not get any information in their mother tongue, but we also earned some new *likes* thanks to those who shared the videos on their timelines with audiences yet unknown to us. This “post optimisation” brings me to our strategic objective to make our publications more accessible and interesting. If we are to increase our impact and connect better with citizens, we need to make it easy for them to have the full information at hand on their favourite device, not just a headline and a link to our website. We cannot just wait for them to come and visit our webpage - perhaps they will never do so.

To reach out like this, the new ECA strategy foresees that we will produce “derivatives of our reports tailored for key stakeholder groups”. Social media is not one of those particular groups – it is all of them. There are as many ways to reach these audiences as our imagination lets us wander: sharing related content on [international days](#), providing [contextual information](#) to the latest public debates, putting [a human face](#) on a sometimes hidden activity like auditing, and many more ideas. We have already put some of them in place in the last few months and we intend to keep doing it in the future. But to do so, we need to rely on the potential of ECA Members and staff on social media.

Social media is simply and only about people

“Our internal organisation will put our staff, technology and knowledge to full use for the benefit of our products”, asserts the latest ECA strategy. But how does it work for social media? Only on LinkedIn nearly 900 ECA staff are already present. How many people could we reach if they had 1,000 followers each? Then start conceiving the impact of this approach on other social media handles.

Both staff and readers are invited to like and follow the ECA’s social media profiles. One of our challenges now is to provide staff with targeted and attractive material to share it.

Text mining: making sense of unstructured data

By Zsolt Varga, Directorate Translation and Language Services, ECA

In its 2018-2020 Strategy the ECA aims to better exploit technology to bring innovation in its audit work to facilitate auditing and present audit findings better in its reports. New IT tools give more options to reveal in big data and open data correlations, network or mass text analysis and data visualisation. But what does this concretely mean and how does this work? Zsolt Varga, translator and expert in text mining, takes us into the deep, revealing what new possibilities are ahead and how they can make sense for the work of the ECA.

Structured and unstructured data



80% of the world's data is **unstructured**

image credit: [IBM](#)

Somewhere around 80% of all potentially usable business information may originate in unstructured form. Only a small portion of all data in the world is residing in structured and organised databases. The main difference between text documents and data stored in databases or spreadsheets is that the latter is structured, thus it can be directly “understood” and manipulated by machines. Free-form textual data on the other hand contains lots of information that had been previously hidden from computers, as it was computationally too “expensive” to analyse. Also, the biggest difference between text and numbers is that texts are language-specific, while numbers are universal. Even though some information contained in texts – geographical names, names of organisations and persons, references to other documents – is language-independent to a certain degree, in most cases we still have to take into account the different grammatical structures and prefixes/suffixes of different languages.

What is text mining and why do we need it?

Statistical text mining is the processing of unstructured textual information, extracting meaningful numerical data from the text, often by using complex machine learning models. In the recent years the ECA's textual output has been on the rise, reaching several thousand pages per annum. The number of input documents that needs to be processed during audits is increasing even more sharply. While the amounts of information that we are dealing with would not be considered big data by volume¹, the high number of pages makes it impractical, if not impossible for auditors and analysts to manually search for information and/or manually scan all available documents to choose the ones most relevant to their work.

In order to extract meaningful information from text, first we have to understand what textual data sources we have, what types of data we want to extract and what the purpose of the information collection is. Using text mining in support of a performance audit requires a different approach than analysing our own reports for the purposes of identifying country-specific recommendations or topics. Text mining in audit is quite a diverse field, ranging from

¹ Data may be considered *big data* because of several reasons (the 3Vs): Volume, Variety, Velocity. See https://en.wikipedia.org/wiki/Big_data#Definition.

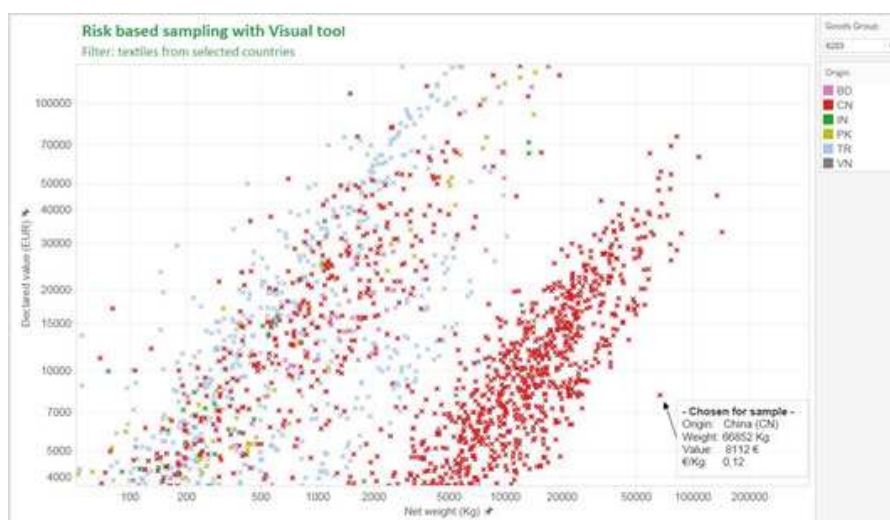
simple word cloud visualisations through reference network graphs to complex text analysis. The latter could include for example contract audit, information extraction from reports or source code analysis to identify irregular operations in program logic and database transactions.

Understanding machine learning and data mining

The traditional statistical approach is to take samples, analyse them and extrapolate the results to the population while developing and testing hypotheses. On the contrary, data mining deals with the whole population, and a data mining algorithm does not have any ideas or hypotheses to test. What it does have, however, is huge processing power and access to the entire dataset, so it applies fairly complex mathematical models and/or simply tests a very large number of possible correlations within the data. Data mining, artificial intelligence and machine learning all refer to the same broad concept of teaching the machine how to mimic human thinking.

One way of teaching the machine is by showing examples in order to learn a general rule. For example we can create a sentiment analysis algorithm by showing a computer thousands of sentences that have been previously manually classified by human operators as containing positive/negative emotions, or we could also create a credit rating algorithm by inputting the parameters of defaulted and fully paid back loans. This is called supervised learning. However, the opposite approach, called unsupervised learning, is just to give the machine all the data and let it figure out structure and meaning by itself. This method also allows us to discover previously hidden patterns in the data. However, these “hidden” patterns are merely correlations, thus further human professional judgement is required to validate them and establish eventual causality.

Example of data mining involving structured numerical data in support of an audit



The ECA used visual data analysis (VDA) techniques to spot undervalued imports of textiles and shoes from China, by using a scatter plot of data originating from a customs surveillance database (see SR 24/15 on VAT fraud). This technique allowed the audit team to efficiently analyse approximately one million rows of structured numerical data and select suspicious transactions using visual data analysis by identifying outliers. Transaction network analysis using graphs can also contribute to the identification of a fraudulent chain.

The *ECALab*² within the Court is currently experimenting with the possible use of such association mining for performance audits (what impact certain input parameters and circumstances have on the effectiveness and outcome of EU action). Another example is automatic text classification and text summarisation where the computer tries to figure out the topic, keywords and the key points of documents without human intervention, regardless of the language the document was written in.

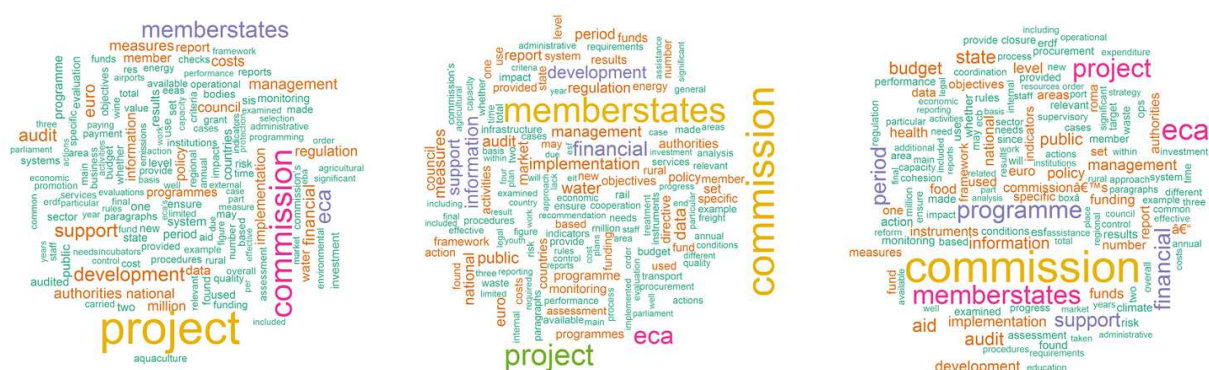
Text mining at the ECA

The ECA occupies a special position within the audit community. Even though we are a public institution auditing public spending, just like national Supreme Audit Institutions, our audit work is not confined to one country, but covers all EU spending in all Member States and a number of third countries, which makes us similar to private sector audit firms auditing multinational operations spanning several countries and legislations.

Our information needs also reflect this duality (in addition to numerical financial data we also need to process a large number of official text documents in different EU languages), thus off-the-shelf IT products often do not provide the functionality we are looking for. Commercial data mining software usually focuses on problems such as credit analysis, customer attrition, client segmentation, fraud detection and social media analysis. Such software can be successfully used for the analysis of simple texts i.e. for the processing of insurance claims, examining tweets and social media messages and also for well-structured tasks carried out on complex documents, such as fraud and plagiarism detection. However, our line of work mostly requires us to process external documents in several different languages concerning a multitude of complex topics and to keep track of information contained in our internal documents that are usually first drafted in English or French, and then translated into all official languages.

The ECA has been actively experimenting in the field of text mining; there have been several internal oral and written presentations. The *ECALab* is currently exploring the use of open source libraries and IBM's Watson cognitive services, and a practical training/workshop is planned in Q4 2017 for technically minded colleagues. This article provides a non-exhaustive overview of our research results.

Text visualisation



Top 150 terms in 2014

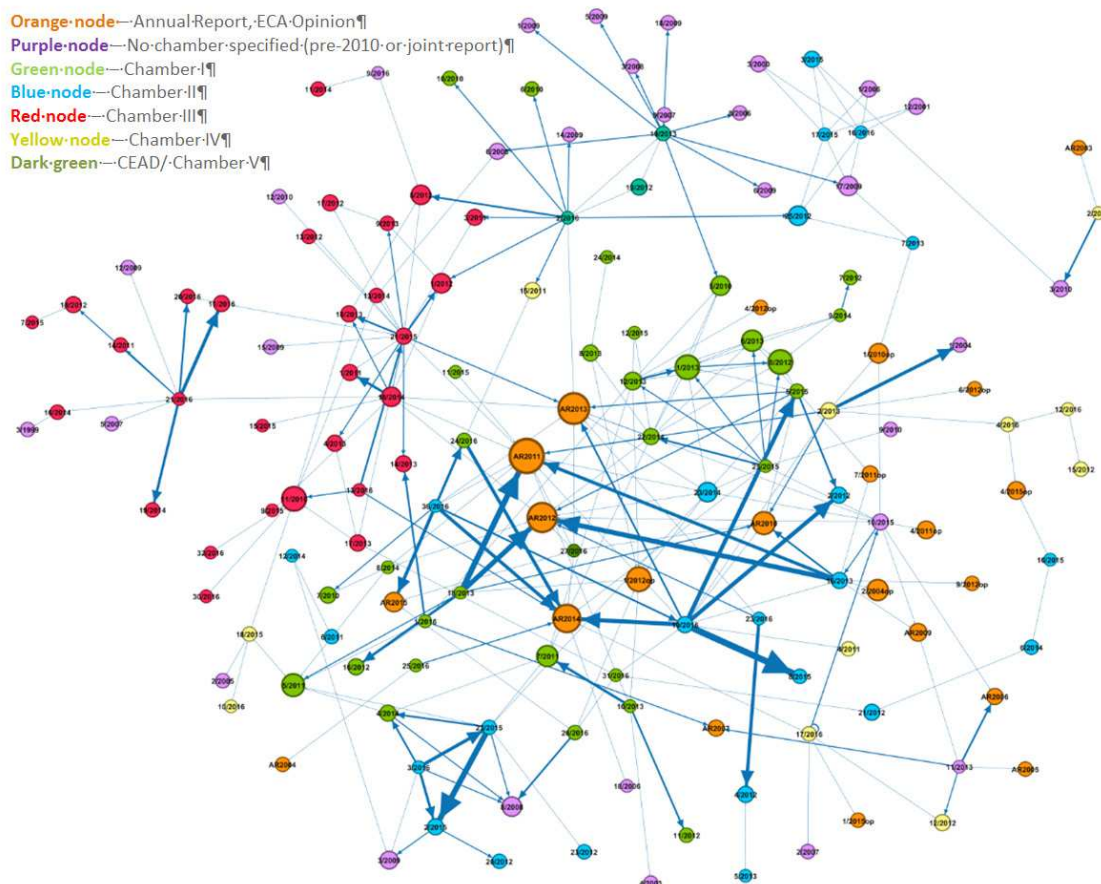
Top 150 terms in 2015

Top 150 terms in 2016

One of the most widely used forms of statistical text analysis is text visualisation. The word clouds in the above figure show the most frequently occurring terms in our special reports published in 2014, 2015 and 2016, respectively. The most frequently used keywords are displayed larger and highlighted in different colours. There is a visible trend of changing focus from projects to the member states and the Commission, and then finally to the Commission only (at least on the textual level in our published documents). Word clouds can also serve as verification about the intended message versus the actual content of documents.

² The *ECALab* is an internal team consisting of members from different business areas (IT, audit, and language services) with the objective of exploring new, innovative technologies and methodologies.

Network analysis



Cross-reference network of ECA special reports between 2013 and 2016

Network analysis in the context of data mining usually refers to social network analysis. However, social media analysis is not so relevant for the ECA audit work; in the context of our actual audits we are more interested in the relations between beneficiaries and relevant entities. Another useful application of network analysis is the visualisation of the interconnection between documents in the form of graphs. A graph is an abstract data type that contains nodes (*vertices*) and their interconnections (*edges*). A node in the graph can represent a document, a person, an organisation, etc., while the edges can represent any type of connection, e.g. document references or personal connections. The above example shows the comprehensive cross-reference network of ECA's special reports published between Q1 2013 and Q1 2017.

This graph contains a lot of information: node sizes reflect the number of incoming references, meaning that large nodes are those reports which other reports point to; wider lines mean that the given reference is repeated several times in the text; the different colours indicate SRs published by different chambers or whether a document is an Annual Report or an Opinion. However, it should be noted that it is not the number of connections that really counts. A graph metric called *betweenness centrality* measures how much influence a node has on the transfer of knowledge and information through the network. In this respect *SR 21/2015 Risk Review* followed by *SR 19/2016 Financial Instruments* are the two main "knowledge brokers": they connect distant topics and the works of our separate ECA Chambers. On average, Chamber II and III produce the most highly interconnected reports, while reports from Chamber I and II contain the highest number of references to other ECA reports³. As far as ECA Opinions are concerned, OP 1/2012 on CAP and OP 2/2004 on Single Audit are the most cited in SRs.

³ The follow-up reports also contain a lot of references, but they constitute only a small percentage of our output.

Entity recognition/ information retrieval

The above example with the graph also showcases two further text mining methods, “*named entity recognition*” and “*information retrieval*” that were used for identifying Special Report references and extracting their numbers. Entity recognition refers to locating and classifying named entities in the text into pre-defined categories such as persons, organizations, locations, etc. Simply put, it identifies whom a document is about. It allows us for example to determine which audit documents mention certain beneficiaries, operational programmes or contain references to a certain document. It also allows us to identify which are those specific reports that mention certain countries, organisations etc. However, this task is not as trivial as it seems, as references are usually not consistent and there are certain logical relations between named entities that need to be taken into account⁴.

Information retrieval is the science of searching for information in a document and/or searching for documents themselves in order to reduce information overload. An experimental tool is now available so that ECA auditors and cabinet analysts could search for specific information in a large document corpus, e.g. Audit Planning Memoranda, SRs/Annual Reports/Opinions or external reports in the form of keywords or *regular expressions*⁵.

Text summarisation

Automatic text summarisation aims at reducing a text document to a summary that retains the most important points of the original document. However, the main difference between manually written summaries and automatically generated abstracts is that the summarisation algorithm can only take whole sentences from the original text, while human authors can rephrase and rewrite sentences, and/or create an entirely new summary from scratch⁶.

Even though automatic summaries are not necessarily “fit for publication”, they can be nevertheless very useful for processing source documents for audits and for summarizing external reports. Certain implementations of advanced summarisation algorithms even allow us to provide a percentage value, thus auditors can request e.g. 5% summaries of a group of documents to have an overall idea of their content, and then pick the most relevant ones for further detailed analysis. Automatic summarisation is mostly language

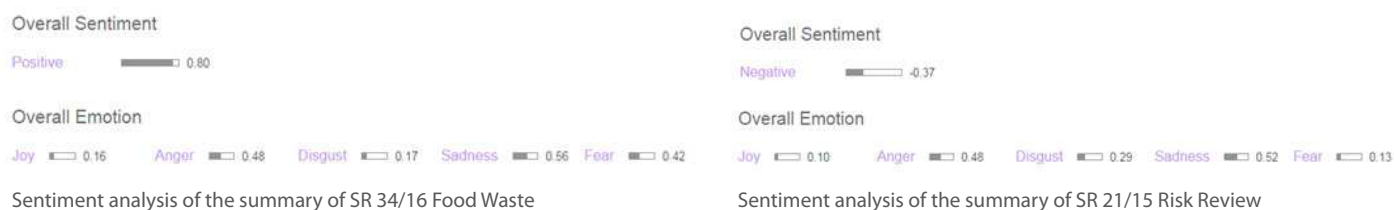
independent and uses a fairly complex mathematical background to identify the important topical sentences.

⁴ Take for example the relationship between countries, federal states and regions. If we want to aggregate data on a country level, the names of German states and countries of the UK in the text should be considered as references to the Federal Republic of Germany and the United Kingdom, respectively.

⁵ A regular expression is a sequence of characters that define a search pattern, for example `(?i)((<=annual report\s)([w\s]+d{4})|(\sAR\s+d{4}))` searches for Annual Report references, identifying all non-case-sensitive occurrences of “annual report” followed by any number of words and ending with four digits, or “AR” followed by a space and four digits. It has a fairly complicated syntax, but allows for very powerful and flexible multi-document searches, taking into account word context and different word forms.

⁶ One of the very few exceptions is Google’s *Textsum* algorithm, but it requires a special licensed corpus and computing capacities beyond what is available at the ECA.

Sentiment analysis



Sentiment analysis refers to the use of natural language processing to identify emotions and subjective information. Generally speaking, sentiment analysis aims to determine the attitude of the author or the overall contextual polarity of a document. In the context of the ECA's work, sentiment analysis could be used on news articles about the Court and its activities, and also as a verification tool about the tone of our reports (executive summaries).

Another possible use case is to evaluate the general tone of free-text fields in audit-related or internal on-line surveys. The figure above shows the results of a sentiment analysis done by IBM Watson, a cognitive system specifically developed for natural language understanding. Sentiment analysis offers interesting insights, but as mentioned before when discussing machine learning, human professional judgement is required before its results are used in production.⁷ Sentiment analysis is also language dependent, and thus it does not give consistent results across different language versions of the same text.

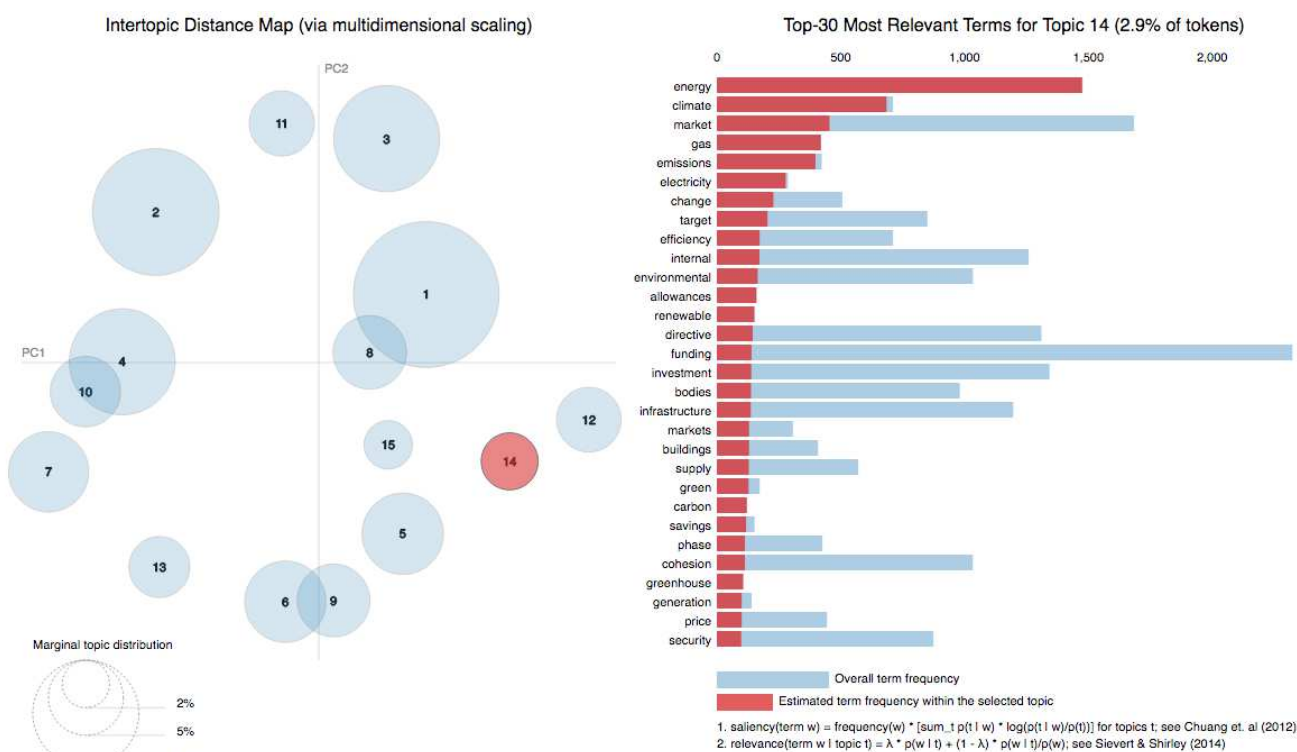
Text classification/topic modelling

In machine learning and natural language processing, a topic model is a type of statistical model for discovering the abstract "topics" that occur in a collection of documents. Topic modelling is a frequently used text mining tool for the discovery of hidden semantic structures in a text body. Similarly to automatic summaries, it could be a potential tool for processing and grouping input documents, but could also be very useful for categorizing our own reports.

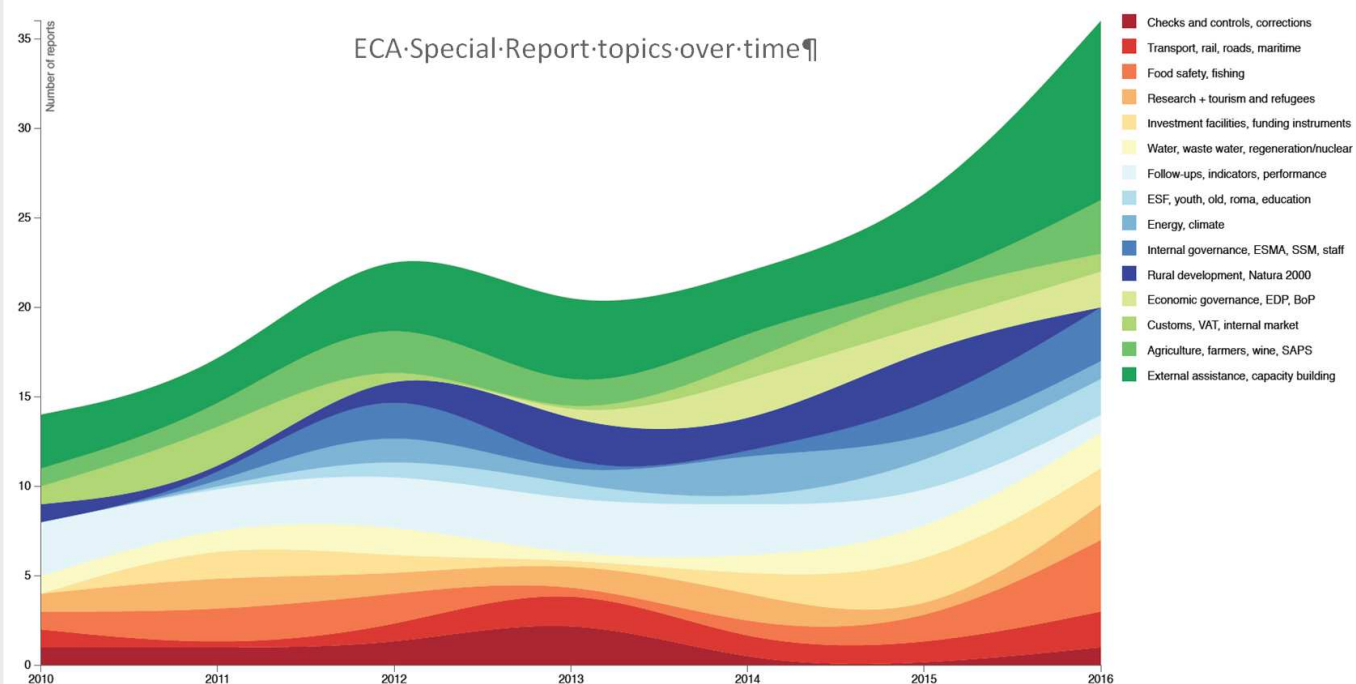
There are two types of document categorisation, supervised and unsupervised. As already indicated earlier, supervised machine learning methods rely on a human-trained sample dataset⁸. However, even if we do not have pre-determined categories, we can still resort to using an unsupervised method to classify documents. The figure below shows the topics and the keywords identified by an unsupervised model in ECA special reports published between 2010 and 2016. These are abstract "topics" that need to be manually labelled based on the key topic words identified, and professional judgement is necessary to give a meaningful name to the topics. However, as the example shows below, the automatically selected topic words already offer strong guidance about the topics and their interrelations. Adding a time dimension to such classifications can also provide us meaningful information about how the topics in certain document collections (e.g. Special Reports, Operational Programmes, Annual Activity Reports) change over the years and across programming periods.

⁷ For example in the case of the executive summary of SR 2/15 Waste Water it misidentified the main emotion in the text as "disgust", because of the waste water related expressions used throughout the text.

⁸ The European Commission's *JRC Eurovoc Indexer* (available at: <https://ec.europa.eu/jrc/en/language-technologies/jrc-eurovoc-indexer>) is a good example for a supervised classifier. It has been trained on the basis of manually classified document collections and further fine-tuned by experts to automatically assign EuroVoc descriptors to documents.



Topics and keywords identified by an unsupervised LDA classification model in the corpus of SRs published between 2010 and 2016



Changing trend in the distribution of topics in ECA SRs published between 2010 and 2016

Practical considerations and the way forward

Text mining, as the name implies, is a data analysis approach that is best suited for analysing large amounts of textual data. As some text mining methods (entity recognition, sentiment analysis and classification) are probabilistic by nature, the more data we have for training our machine learning models, the more accurate results we will get. The recent technological breakthrough in natural language processing and computing capacity now allows us to tap into the domain of unstructured textual data and discover previously hidden patterns and correlations. However, text mining tools still require considerable linguistic and IT skills to achieve proper results and the ECA's special information needs require customised solutions.

Still, text mining can already help us better organise and enrich the knowledge we already have within our organisation and in our internal documents. It also offers efficiency gains when processing audit-related input documents, so that auditors can focus on high added value tasks rather than spending their time on manually searching and classifying information. In addition, using text mining methods to gather numerical data can save a lot of time when creating visualisations involving information contained in text documents, as it alleviates the need for the intermediary step of manually collecting and extracting numbers into spreadsheets.

We are still in the experimenting and prototyping phase, but the **ECALab** is actively exploring possibilities to provide text mining services to our staff in a user-friendly and organised manner in the – hopefully near – future.

Strategic challenges in audit : private and public sector experiences

By Gaston Moonen, Directorate of the Presidency, ECA



When designing its 2018-2020 strategy the ECA had an open ear to external views and advice. Meetings were organised with stakeholders, sister organisations and also private audit firms to tap in to their corporate strategy development and views how to implement it. During two recent meetings organised on 12 and 28 June it became clear that the ECA was not out of sync regarding its strategic orientations. On the contrary: conceptual thinking on public trust, ethical values, credibility, value driven and fact finding, adding value, courage and risk volatility turned out to be essential and would be the most readable words in a word cloud (see also page 28).

Richard Chambers

Guarding the public trust: a specific mission

On 12 June guidance based on extensive experience from overseas was presented by **Richard Chambers**, President and Chief executive officer of the Institute of Internal Auditors (IIA), residing in the USA and also the organisation issuing the CGAP awards, also received by some ECA auditors. Having served in both the private audit world (PWC) and public sector (Tennessee Valley Authority, US postal Service, US army Pentagon) his presentation "Guarding the public trust: are you up for the challenge?" touched upon the key role of an auditor, be it public or private: providing assurance whether things work well or not.

Richard Chambers pointed out that through assurance trust is built and in this respect government auditors- internal or external - have unique characteristics compared with the corporate or on non-profit sector. He considers government auditors as a breed apart because of the unique challenges, which is expressed in firstly the specific mission government auditors have, which is guarding public trust; secondly the broad group of stakeholders one has to serve, being institutions, citizens, media; and thirdly in the comprehensiveness government auditors have to approach their audit topics compared with corporate sector auditors, which requires a highly methodological approach. Since the work of government auditors is far more visible than in the corporate world the credibility to be maintained is high.

Since missions of the public sector auditee are so diverse, resulting in many different operations and risks, the knowledge required from government auditors is high. While in the private sector shareholder value in financial terms often defines the success in government success factors are much broader and defined in much wider outcomes instead of outputs, which is often a much harder task for government auditors to establish. Richard Chambers highlighted that the mission of each government auditor is to reinforce the accountability of government towards its citizens - a very special role and also challenge that government auditors face.

Richard Chambers identified a number of challenges particular for now and the next few years, like fiscal stress, output pressure for elected executives, pressure for auditors to demonstrate added value and identify risks. The latter are, particularly for governments, very volatile, ranging from cyber security to geopolitical instability and crisis response, and are not as often identified, quantified and mitigated as risks identified in the private sector. In government the focus is often on political risks instead of operational risks. Here auditors have to be agile and step in as champions pleading for risk management.

Success factors for government auditors

What constitutes success factors for government audit organisations? According to Richard Chambers independence, objectivity and credibility are very much interlinked. If government auditors want to be trusted advisors, they need to have several characteristics, starting with ethical resilience, courage, objectivity and proficiency but also diplomacy and finesse. In addition audit can play a role in assessing and auditing culture, trying to find the root causes for scandals. Often auditors will see that if within an organisation there is a culture where ends justified the means and lack of accountability, scandals may easily arise. For auditors there is an increased expectation, for instance from bank regulators, to look at issues like culture. Government auditors have moved from an era of hindsight to insight and ultimately they need to provide foresight, with perspectives about the future, speaking also in terms of possible risks and risk levels.

Enduring lessons learnt on the audit trail

Richard Chambers identified the following “enduring” lessons he learned while on the audit trail:

- government auditors are auditing in the theatre of politics where for an auditor “doing the right thing” by being credible, independent, objective and courageous, is crucial for survival;
- ensure that your own glass house is shatter proof before throwing stones;
- everyone loves a watchdog until it barks;
- you can be right a 1000 times but you cannot afford to be wrong once;
- little stones can cause the biggest waves: audits with immaterial findings can be frontpage news because citizens and taxpayers resonate with waste on a different level than many in the audit field.

Audit as a service to society: defining our role as private and public auditors

Triggered by discussions he had in the Netherlands and elsewhere with leaders of both public and private sector organisations Alex Brenninkmeijer decided to bring together some players who stand out when speaking about pioneering on strategic development in the audit world. On 28 June, in a session open to all ECA staff, three leaders in audit, be it in very different areas, gave food for thought: **Peter van Mierlo**, CEO of PwC Netherlands, **Anton Colella**, CEO of the Institute of Chartered Accountants of Scotland (ICAS) and **Manfred Kraff**, director-General of the Commission’s Internal Audit Service (IAS).



Adding trust to the system

Alex Brenninkmeijer put on the table the fact that accountants are regulated by a charter, forming the foundation for the trustworthiness of accountants. This was the beginning of the development of accountancy in Scotland and the Anglo-Saxon world. Reflecting on trust and how it can be fostered in society is very important, the more since it is under pressure in many areas of the society, be it from citizens, consumers, or taxpayers. Alex Brenninkmeijer underlined the need for reliable information as a basis for human interaction and building a society. Auditors can add trust to the system by providing reliable information.

Accountancy as an evolving profession

According to Peter van Mierlo the accountancy profession is on a cross roads: if an accountant's role is to put trust into the system but society starts to question the accountants credibility you have a serious problem! Nowadays this goes particularly for private sector auditors and requires some structural changes from the profession. About 15 years ago the focus was on the words in the audit opinion: if the words were right the accountant had done a good job. Then society wanted to receive more information to see what is behind the opinion, so more information was given on the audit file behind the opinion. A third development was the divergence in the thinking of the auditor and society about the role of the auditor in the detection of fraud. Like Richard Chambers Peter van Mierlo believes there needs to be more comprehension on both sides what the role of the auditor is in detecting fraud and how to act upon it.

Peter van Mierlo identified a lot of criticism towards the profession, underlined by another critical report the Dutch market authority for financial markets (AFM) to be published soon. The more reason for Peter van Mierlo to lead his organisation to become purpose led and value driven. The profession, at least in the Netherlands, has tried to solve many questions from the inside, from their own view with own knowledge, often starting with the question: is it within the law? For Peter van Mierlo here lays an important challenge: changing how the profession thinks.

Why the need for a purpose and values

With a faster changing world the need for a higher level of assurance increases. Society does not want snapshots anymore from certain situations but expects the auditor to play a certain role. So the behaviour of the auditor needs to change to respond to that expectation. But auditors are slow to realise this and pick this up, despite the multitude of regulation to steer the profession into another direction, be it in the EU or in the USA, or the barring of several big audit firms to conduct audits in certain parts of the world or in certain business areas. This shows that society is angry with auditors and will only get more angry if auditors do not change their behaviour. Therefore purpose led, value driven. What does that mean? If PwC wants to undertake work it should always ask: does it contribute to the purpose PwC stands for? Value driven means that an organisation defines a number of behaviours you can relate to and try to optimise across the organisation.

Other reasons to become purpose led and value driven: firstly the need to have a northern star: an organisation that can be trusted to say as it is. Only when an auditor is trusted he can be relevant for society. For Peter van Mierlo the only relevance an auditor can bring is putting trust into the system, so credibility is key. Secondly, interest in the profession is decreasing and the profession needs to remain attractive for new talent, characterised



Peter van Mierlo

also by diversity – male/female and different cultural backgrounds, thereby getting more perspectives in your team. Thirdly, companies that have a purpose and are value driven perform better, creating societal value.

Working through four stages

Peter van Mierlo defined four levels or stages to give more contents to purpose led and value driven:

- define a new strategy with these terms;
- define actions how you want to become purpose-led and value driven and implement these actions;
- ask your stakeholders after a certain period whether PwC, or the ECA if you want, have actually implemented its new strategy, namely becoming purpose led and value driven. Here it becomes interesting;
- success rate in convincing the auditor's clients to become also purpose led and value driven.

He clarified further the meaning of purpose led and value driven by taking the different perspectives of the actors you have to deal with: yourself, the organisation you work for, the stakeholders of that organisation, your client, the client's stakeholders, and finally society. Looking through these different perspectives - *lenses* as Peter van Mierlo called them - do not give you similar answers and the audit sector would benefit substantially trying to use these different perspectives in their audit work.

Why are values so relevant? To change behaviours and subsequently change what people think requires a culture of self-awareness, self-reflection and willingness to be vulnerable. These characteristics are not exactly at the core of being an auditor, often to the contrary, according to Peter van Mierlo. Such change also requires an understanding of personal values and what do you stand for. Within PwC a global survey was held regarding personal values, values related to the organisation people work in and certain values they would like to see in the future. 150.000 people participated and it turned out that to be successful as organisation you need a good mix of diverse values, like acting with integrity, working with care, working together, making a difference.

PwC on a journey

PwC is on a journey towards transformation which will take several years and Peter van Mierlo himself leads several value workshops. The first step is to get people knowledgeable about the challenges and the second step to apply it. The journey does not have a goal and does not have an end because you will never get there: transformation is a continuous process. A challenge will be to get the Anglo-Saxon world on board with this. Overall Peter van Mierlo indicated that he met an interested ear but also scepticism about the possibility of achieving a transformation. However, he feels that now the world starts to believe that PwC, and the private audit sector as such, might become purpose led and value driven and gain credibility.

Alex Brenninkmeijer raised the question of whether the business model in the private audit sector was still a viable one: the way private sector auditors make money is more and more seen as problematic, also underlined by the critical reports issued by regulators in some countries. The more he found it laudable to get an inside view in the journey PwC is undertaking.

Charter given to serve a purpose

Anton Colella, a former teacher and regulator, is for several years now CEO of the oldest accountancy body in the world, ICAS, which was given a charter by Queen Victoria. This charter was given to serve a purpose without time limits. This charter was given to serve the nation, so not to serve a business but for the public good. According to Anton Colella, after a long litany of crisis, nowadays citizens in many nations do not trust power. Recent events did not help, like was visible in the UK how corners were cut in observing fire regulations in a terrible fire in London earlier in June. Although traditional power is no longer respected Anton Colella noted that accountants are still near the top in surveys on trust, despite scandals or corporate failures.

The premise for the ECA is: do people trust you, do people trust the opinions issued by the ECA. In the UK media there is the persistent belief that the ECA has never been able to sign off the EU accounts, with consequences for trust. However, according to Anton Colella, the ECA cannot create trust into EU institutions because of its audit work, its questioning etc. Trust has to come from the institutions themselves: the leaders, employees, strategy, transparency and execution of plans for society need to be delivered by these institutions.



Anton Colella

Being a professional for life

When Anton Colella was speaking with the director of health in his city he was told: accountants save more lives than doctors. This, the director told him, because accountants ensure that money gets to the right places. Anton Colella believes in profession: a word whose origins go back to the Christian monks in the Middle Ages who made their profession: their vow, their oath. When you join a profession you make an obligation, a vow, for the rest of your life. Anton Colella introduced for ICAS a public oath which will remain with them till death. He gave the example of a gravestone he saw, with the deceased's name and CA behind it: chartered accountant. Apparently those two letters defined the life of the one buried.

As chair of the Global Accounting Alliance and having 1.2 million members, Anton Colella speaks for many audiences of what it means to be a professional today. Being a member of a profession transcends who is your employer. With people changing employer more regularly it will be important to have young people who become an accountant to have a value system that lives with them regardless who they work for or where.

Quaere verum

Trust in the accounting and auditing profession does not start with the ECA or any other audit employer. Anton Colella believes that trust begins with yourself. Personal and ethical leadership is and should be the defining characteristic of every accountant or auditor in whatever culture, nature, nation, age, society or business. Individuals have the power to transform their organisations, be it PwC or the ECA. This by living the promise made. For auditors the leading purpose is: quaere verum – seek the truth. The challenge is also: what do you do when you find the truth. Seeking it is one thing but what then. Anton Colella challenged the ECA audience to come up with the five ethical principles that govern accountants and auditors. After some initial hesitation the ECA audience identified almost all of them: objectivity, integrity, professional competence, confidentiality, professional behaviour.

The key question is whether you live these principles. Anton Colella found these principles to be right but nowadays sometimes trivialised. For example, integrity is often used but little understood. He believes that any accountant living these values requires a new ingredient: moral courage. Trust will only be won by man and woman of courage. In Anton Colella's view without the accounting and auditing profession today the fundamental foundations of the global markets would collapse.

Tone in the ECA?

Is the ECA trusted as an organisation, is the ECA trustworthy? As auditor does the ECA understand its audience? Anton Colella underlined that audit and audience have the same origins and it is important for an auditor to listen. He urged to be careful not to forget the audience when doing the audit. Very important is to communicate the message of what the auditor does and the why, what and how of what you do as auditor.

For Anton Colella the tone in an organisation is important. What is the tone in the ECA? Does the ECA applaud courage? The tone at the top is often used to explain organisations and blame leaders. But it is also the tone at the middle and the tone at the bottom that makes an organisation work. So he encouraged creating a community of courage, a community of truth in where if one part of the ECA stands up in a courageous moment of truth, the rest of the ECA community stands with them. As auditors with a profession one is bound together by common values and a common purpose you will have to stand together. According to Anton Colella society in the end depends on good, honest and courageous auditors.

Creating the Internal Audit Service to bring back trust

After Alex Brenninkmeijer highlighted the link between being a professional and the "why" of our work he requested Manfred Kraff of the IAS to elaborate on the why in his organisation, the IAS. For Manfred Kraff the main reason for the creation of the IAS was the lack of trust in the European Commission, after the fall of the Santer Commission. The creation of the IAS was one of the first actions building a new Commission. He elaborated on where the IAS is now, underlining that it is independent under the EU Financial Regulation, put directly under the first Vice President Timmermans.

Issuing annually over 50 reports the IAS recommendations are key and their acceptance and implementation rate by the Commission services are very high. Issues covered by the IAS range from the staff burden as a result of the migration crisis, the governance of the European Commission, after the special report published by the ECA, or IT governance. 50% of the IAS audit engagements go to identifying how systems identify and correct errors, 12% goes to IT issues, 11% to better regulation topics and 6% to issues related to financial instruments. As internal auditor the IAS presents reports to the College of the Commission but also gives an internal audit report to the European Parliament and the Council. So now conclusions and recommendations are discussed with the external stakeholder.

Quality review and courage

The IAS also gives an overall opinion on financial management, arriving currently at a qualified opinion. This due to reservations identified by Directors-General of several Commission services. These reservations are included in the annual activity report and therefore in the public realm. Looking back Manfred Kraff showed a timeline of "creativity",



Manfred Kraff

presenting innovative steps replying to lack of trust, following also the criticism the ECA ventilated almost twenty years ago. He explained the shift from a then financial controller to bringing financial responsibilities directly to the management of a directorate-general, with the IAS executing a quality review, requiring courage to call a spade a spade.

IAS aims for the future

Where does the IAS want to go in the future? For Manfred Kraff the three line defense model – first line management, second line financial controller and risk manager, and third line the internal auditor providing assurance on the quality of the first and second line of defence – will continue to be the core concept, with a strong central internal audit function. The IAS will further aim to integrate innovative audit practices and improve the Commission performance, also through the identification of best practices and objective advice. Another important development will be the single audit concept, enhancing the coordination between the internal and external auditor to better make use of the audit work executed, if feasible through the adoption of a memorandum of understanding.

Manfred Kraff announced that the IAS will organise a conference in October with the title “Innovation and creativity in internal audit,” looking into issues related to new audit technology, innovation in auditing, developments in organisational culture, and the latest techniques on behavioural auditing. The IAS will aim to become a pro-active line of defense, within the Commission and having a tangible impact on its activities. The idea is to have a seat at the top table in the Commission to provide trusted advice to those taking decisions. This in full compliance with international standards, like the international professional practices as adopted by the IIA.

While the prime stakeholder for the IAS is clearly the Commission the IAS also will listen to ideas issued at the level of the European Parliament, Council and citizens. But also internally it will be important for Manfred Kraff to listen to young auditors in his organisation since, referring also to what Anton Colella had said, the tone in all layers makes the music. Manfred Kraff wants to innovate through evolution with consecutive and directed steps, taking into consideration that the top level of an organisation has to buy in what an internal auditor brings forward.

Covering different angles

So while Peter van Mierlo showed us the journey PwC wants to undertake, focusing on how the right attitude can be found to reply to societal needs, Anton Colella brought in the professional element of a chartered accountant, being an oath to society and not to a company or other interests. Another issue is whether the ECA as such can raise trust by itself among citizens or is it more the EU institutions themselves who have to do that? An influential player in that respect for the Commission will be the IAS, led by the internal auditor of the Commission, Manfred Kraff, who explained how he works on bringing trust to the system called the Commission.

Towards implementing harmonised public sector standards in Member States: following a slow moving train?

By Peter Welch, Directorate Sustainable use of natural resources, ECA



In the July/August edition of the Journal a case was made for public sector accrual accounting and questions were raised on what the E of European Public Sector Accounting Standards (EPSAS) can mean. Peter Welch has attended a recent meeting where the current state of affairs on EPSAS was discussed and fills us in on where the EPSAS project currently stands and how it changes the auditor's work environment.

The ECA has followed the Commission's moves to promote harmonised public sector accounting standards in Member States since the Commission published its report on subject in March 2013. The ECA produced a letter commenting on proposals on publication, provided two speakers at the inaugural conference in May 2013, responded to the public consultation on possible governance arrangements, organised its own conference on the subject in January 2016 (see <http://www.eca.europa.eu/en/Pages/Workshop-on-public-sector-accounting.aspx>). It has attended – as an observer – the various meetings on the issue organised by our neighbours at Eurostat here in Luxembourg, and by the task force on this topic of the Contact Committee of the Supreme Audit Institutions of the EU (most recently in Paris in June). The journey has been fascinating and enlightening, but not always fast moving.

Working with IPSAS

One reason for our interest and expertise in this area is our own experience of working with the International Public Sector Accounting Standards (IPSASs). We worked through the transition from the previous ad-hoc accounting rules applied by the European Commission to the period of full compliance with IPSAS. This revealed the value of using proper, independently-determined, accruals standards. No one – I believe – would want to go back to the partial presentation of assets and liabilities of the balance sheets of the 1990s.

Of course this experience does not replicate the situation in EU Member States. Most Member States have relatively sophisticated accounting frameworks. These are often already based upon IPSAS (Estonia provides a leading example). In some cases they are based on commercial standards (IFRS in the UK, commercial law in some other Member States). In practice, work produced for Eurostat indicates that the choice of accounting framework is not the most significant factor in harmonisation: accruals accounting frameworks resemble each other quite closely.

Working towards EPSAS

The original prospectus put forward in the Commission paper was an approach in which the existing 32 IPSAS standards for accruals accounts would be divided into three groups: those that might be implemented with no adaptation; with adaptation (or selectively); standards needing amendment.

The paper the Commission produced for public consultation in late 2013 did not develop this approach further, but sought to assess support for governance arrangements similar to those applying for statistical accounts (see ECA SR 12/12), for a set of EPSAS .

Towards implementing harmonised public sector standards in Member States: following a slow moving train? *continued*

The most recent statements from the Commission point to a gradualist, consensual approach. For example, in a reply to a parliamentary question in March of this year, the Commission said that a “progressive and voluntary approach to EPSAS seems the most appropriate way forward, focusing firstly on increasing fiscal transparency in the short to medium term and then on ensuring comparability between and within Member States in the medium to the longer term. Improved transparency is being promoted by encouraging accruals and IPSAS implementation and by supporting accruals reforms in Member States.”

Slow ride with a heavy cargo

This may not have been the fastest ride imaginable, but the process has been fascinating. Eurostat have promoted much contact between accountants and standard setters from the different Member States and from the international standard setters. There have been extensive contacts between IPSASB and both Commission and Member States. Indeed Eurostat hosted the most recent meeting of IPSASB here in Luxembourg, and members of IPSASB from around world told me how much they appreciated the discussion with EU representatives, and the different discussion papers produced as part of the EU process.

Currently several Member States are moving towards adoption of IPSAS – with some support from the EU budget (Portugal, Cyprus, Hungary and Malta). Many others already have accruals accounts. It is hard to predict how much support there would be for the eventual adoption of a strictly European equivalent. A small but influential number of Member States are opposed to the use of accruals and question whether there is a Treaty basis for legislation on this issue.

Beyond these basic concerns, some difficult technical issues lie ahead:

- There are some notable examples of bodies which produce accruals accounts in most respects, but which fail to include all provisions (for example for pension obligations) on the balance sheet. It is difficult to see how this could be tolerated under any European framework.
- In general specific bodies provide financial accounts and Member States provide statistical accounts. While some countries (UK, New Zealand) provide financial statements covering the whole of the public sector, it is more often the case that accounts are not consolidated where the bodies concerned are legally independent. The ambitions of the EPSAS project, as well as its role in fiscal monitoring, point to a “whole of public sector” solution. This raises a host of conceptual and practical challenges.
- Harmonisation and the application of best practice are both desirable qualities for future financial reporting. Unfortunately they may enter into conflict. Some Member States would worry that the adoption of EPSAS might represent a step back from the high level of accounting they have already achieved.

Some effects clearly noticeable

All this said, the project to look at the harmonisation of public sector accounts is already leading to improved financial reporting, to international harmonisation on specific issues, and a clearer and more useful communication with international standard setters. For auditors, the discussion and debate around difficult standards, and the chance to compare different solutions for the application of standards represents a valuable resource – enhanced by discussions with fellow auditors in the Contact Committee taskforce.



Special report
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The Bêkou EU trust fund for the Central African Republic: a hopeful beginning despite some shortcomings

The Bêkou EU trust fund for the Central African Republic, the first managed by the European Commission, was launched in 2014, to aid one of the world's least developed countries. We assessed the justification of the fund's establishment, its management and the achievement of its objectives so far. Despite some shortcomings, we conclude that the choice to set up the fund was appropriate in the given circumstances. Its management has not yet reached its full potential in three respects: coordination amongst stakeholders, transparency, speed and cost-effectiveness of procedures, and monitoring and evaluation mechanisms. But it has, overall, had positive achievements to date. Our recommendations should help improve the design and management of this and other EU trust funds.

[Click here for our full Special Report](#)

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Cover:
ECA College in session in January 2017, discussing strategy issues