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Effects of European Union
Accession: Part II External
Audit

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**EFFECTS OF EUROPEAN UNION ACCESSION --
PART 2: EXTERNAL AUDIT**

SIGMA PAPERS: No. 20

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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THE SIGMA PROGRAMME

SIGMA -- Support for Improvement in Governance and Management in Central and Eastern European Countries -- is a joint initiative of the OECD Centre for Co-operation with the Economies in Transition and the European Union's Phare Programme. The initiative supports public administration reform efforts in thirteen countries in transition, and is financed mostly by Phare.

The Organisation for Economic Co-operation and Development is an intergovernmental organisation of 29 democracies with advanced market economies. The Centre channels the Organisation's advice and assistance over a wide range of economic issues to reforming countries in Central and Eastern Europe and the former Soviet Union. Phare provides grant financing to support its partner countries in Central and Eastern Europe to the stage where they are ready to assume the obligations of membership of the European Union.

Phare and SIGMA serve the same countries: Albania, Bosnia-Herzegovina, Bulgaria, the Czech Republic, Estonia, the Former Yugoslav Republic of Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

Established in 1992, SIGMA works within the OECD's Public Management Service, which provides information and expert analysis on public management to policy-makers and facilitates contact and exchange of experience amongst public sector managers. SIGMA offers beneficiary countries access to a network of experienced public administrators, comparative information, and technical knowledge connected with the Public Management Service.

SIGMA aims to:

- assist beneficiary countries in their search for good governance to improve administrative efficiency and promote adherence of public sector staff to democratic values, ethics and respect of the rule of law;
- help build up indigenous capacities at the central governmental level to face the challenges of internationalisation and of European Union integration plans; and
- support initiatives of the European Union and other donors to assist beneficiary countries in public administration reform and contribute to co-ordination of donor activities.

Throughout its work, the initiative places a high priority on facilitating co-operation among governments. This practice includes providing logistical support to the formation of networks of public administration practitioners in Central and Eastern Europe, and between these practitioners and their counterparts in other democracies.

SIGMA works in five technical areas: Administrative Reform and National Strategies, Management of Policy-making, Expenditure Management, Management of the Public Service, and Administrative Oversight. In addition, an Information Services Unit disseminates published and on-line materials on public management topics.

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FOREWORD

Compliance with the European Union's budgetary, financial control and audit requirements is one of the basic obligations of EU membership. SIGMA examines this in two publications that chronicle the experiences of seven EU Member States, including its three newest adherents, in integrating EU budgetary, financial control and audit procedures and requirements with national ones. The publications also describe central regulations and procedures used by the European Commission and the European Court of Audit. The present publication complements SIGMA Paper No. 19 *Effects of European Union Accession—Part 1, Budgeting and Financial Control*, on the impact of accession on budgeting and financial control.

The purpose of these publications is to assist central and eastern European countries that have applied for membership of the European Union in discerning the ideas at stake, to give comparative information on the various approaches and solutions used by Member States and to sum up the experiences gained and lessons learned.

The approach is to provide an overview of the topic and analyse key issues for reflection and debate. The focus is on practical experiences gained and conclusions drawn by those who have been involved in the daily work of adaptation and development of the government administration in the seven countries. The two publications also provide insight into the implementation policies adopted and an overview of the regulations and procedures used. Appendices include lists of abbreviations and useful terms and a selection of EU regulations with full reference numbers, concerning budgeting, financial control and external audit.

The papers are not to be seen as “end-products”. Instead they intend to provide the basis for further seminars, workshops and discussions between practitioners in the countries of central and eastern Europe and the Member States.

The preparation of the papers (finalised in late spring 1997) has been carried out in close collaboration with a reference group consisting of the authors and representatives from ministries of finance, committees for European integration and supreme audit institutions in the Czech Republic, Hungary and Poland. The authors work for government and supreme audit institutions in Austria, Denmark, Finland, France, Portugal, Sweden and the United Kingdom.

SIGMA wishes to thank the authors of the papers herein and the members of the reference group for their inspired and devoted work and the institutions they are representing for their active support of the project. The views expressed herein are the views of the respective authors and do not necessarily reflect the views of the institutions they represent, the reference group or SIGMA.

Initiated at SIGMA by Larry O'Toole and carried through under the responsibility of Kjell Larsson, the project has been developed in close co-operation with Richard Allen, and with the administrative and technical support of Belinda Hopkinson, Michael Koch, Françoise Locci and Alette Wernberg. This publication is forthcoming in French under the title *Incidences de l'adhésion à l'Union européenne — Partie 2, audit externe (Documents SIGMA : N° 20)*.

For further information, please contact Kjell Larsson at the address below.

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SIGMA-OECD, 2, rue André-Pascal, 75775 Paris, Cedex 16, France
Tel. (33.1) 45.24.79.00; Fax (33.1) 45.24.13.00
e-mail: sigma.contact@oecd.org; <http://www.oecd.org/puma/sigmaweb>

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ISSUE OVERVIEW

By C.J. Carey¹

1. Over the past decade, the European Commission, as the institution responsible for implementing the Community Budget, has taken an increasingly active interest in the effectiveness of the control measures applied by Member States to Community funds. Indeed, it is in the common interest of the Member States to exercise proper supervision of Community funds. The responses of EU Member States' Supreme Audit Institutions (SAIs) to the Commission's external audit procedures and requirements are divergent for various reasons, including legislative ones. This issue overview paper draws on the separate country papers which describe in more detail the different experiences of selected national SAIs in their co-operation with the Commission's services and the European Court of Auditors (ECA). The present publication complements SIGMA Paper No. 19 *Effects of European Union Accession — Part I, Budgeting and Financial Control* on the impact of accession on budgeting and financial control. In both cases, the approach adopted has been analysis of selected issues for reflection and debate.

2. SIGMA believes that a pooling of the responses of different Member States to the external audit procedures and requirements of membership could be instructive for the applicant countries of Central and Eastern Europe, as well as signposting issues for possible future examination in the context of the EU's ongoing development in the areas of financial management and external audit, including co-operation with the Commission's services, the European Court of Audit and Member States' Supreme Audit Institutions.

1. Background

3. From the earliest days of the Community, the heads of national SAIs have met together, usually once a year, in a Contact Committee. This body has no formal basis in Community legislation. In the early 1970s, the Contact Committee co-operated with the Assembly (predecessor of the European Parliament) to draft the EC Treaty amendments which created the European Court of Auditors (ECA). The amendments were adopted in 1975 and the ECA took office in October 1977.

4. By the time the ECA was set up, Member States were already well accustomed to receiving inspection and audit visits from the Commission services. Even today such visits outnumber ECA audits in Member States by about two to one (see Finnish paper).

5. Prior to the ECA, the Community system of control and audit was essentially autonomous and self-regulating in character. The key role was that of the Financial Controller whose *ex ante* approval was needed for every item of expenditure. The structure of control was largely French in origin (see French paper).

1. C.J. Carey is Chairman for the European Commission's Conciliation Body for the clearance of EAGGF accounts. A former official at the United Kingdom Treasury, Mr. Carey was for four years (1974-78) on the staff of the United Kingdom Permanent Representation to the EEC in Brussels, and subsequently specialised in public audit and parliamentary accountability of expenditure. In 1989 he left the United Kingdom public service on appointment as a Member of the European Court of Auditors, a post he held for nine years.

6. The Treaty amendments which set up the ECA introduced the first ever reference in Community legislation to national SAIs. The ECA's audit work in Member States is required to be carried out in liaison with SAIs; SAIs are required to inform the ECA whether they intend to take part in the audit; and are also required to forward to the ECA, at its request, any document or information necessary to carry out its task (TEC, Article 188c.3).

7. In 1979 the ECA became a member of the Contact Committee and since then its presence has loomed increasingly large on the horizon of SAIs. Although formally the Committee has retained its voluntary character, a *de facto* statement of its *raison d'être* now exists in Article 188c.3. In practice the ECA is now the main focus for the work of the Contact Committee, and the time and effort required to participate in the Committee (with its supporting committee of Liaison Officers and working groups) is significant for national SAIs.

8. Over the past ten years, the European Commission, taking an increasingly active interest in the effectiveness of the Member States' control measures over Community funds, has taken two important initiatives designed to involve national control services in the audit and control of agricultural subsidies and the Structural Funds, and to ensure that the standard of their work meets certain minimum criteria. (See section 3 "The Member State As Beneficiary", paragraphs 17-20, and section 4 "Co-ordination of Financial Control At EU And National Level", paragraphs 28 and 29 of SIGMA Paper No. 19 *Effects of European Union Accession — Part 1, Budgeting and Financial Control* for details of the initiatives in question.) The responses of SAIs to these initiatives have varied. While the Community has legislated about SAI/ECA relations, it has never attempted to regulate the SAI/Commission relationship by law.

9. It seems likely that the Commission will continue its policy of prescribing control and audit procedures for Member States to follow and of requiring them to observe certain minimum standards in so doing. Enlargement, with the additional demands that it will place on the Commission's own control and inspection services, will add a new impetus to the process. The present paper attempts to elucidate some of the diversity of SAIs' responses to EU membership. In so doing, it may shed light on the question: what, consistent with their independent status and their vocation as national audit bodies, is the most effective contribution which SAIs can make to the ongoing programme of reform of EU financial management? The question is as pertinent for existing Member States as for the applicant countries of central and eastern Europe.

2. Effect Of Accession On The Audit Work

10. Most SAIs consider that accession has led to a noticeable but not a significant increase in the volume of their audit work. The United Kingdom's SAI estimates that EU-related work takes up approximately 2 per cent of its time which "is broadly in line with the proportion of United Kingdom expenditure provided from the European Community Budget".

11. This sort of calculation does not do justice to the unquantifiable changes in approach and organisation which accession has brought in its wake for some SAIs. The audit of compliance with EC rules requires a substantial initial effort of familiarisation with them. And implementation of the new rules can generate additional audit risk. Among the sequels of accession, the Portuguese SAI cites the shift towards *ex ante* audit and the introduction of multi-disciplinary teams for programme evaluation: "This demands enormous institutional flexibility".

12. The extent of the cultural shift which can be needed is brought out in the following observation of the Swedish SAI: “We cannot exclude the possibility that, to some extent, the reason for mismanagement, irregularities, fraud and corruption in the EC payments system lies in the way the system is designed. If national and “European” budget funds are used for the same purpose, there may be a greater risk of error in relation to a relatively complex regulatory structure....The fundamental approach and structure implicit in the administration systems of control which now apply to Sweden as a result of EU membership differ in certain important respects from our national practice. This means that it is not always easy for Swedish officials to understand and implement these control systems.” The auditor, in planning his priorities, has to take into account the risk that national systems of administration may not devote the same care and attention to the management of EC funds as they would to national funds.

3. Co-Operation With The ECA

13. There is now a well-established liaison routine which covers the scheduling, implementation and follow-up of ECA audits in Member States. Its modus operandi is described in several of the country papers (see e.g. Portugal section 3, subsection 2.3.A; Finland section 7). The underlying principle of co-operation is stated in the Swedish paper in the following terms: “Co-operation between auditing bodies within the EU must also be characterised by respect for the independence of the various audit bodies involved, where leadership is not imposed as a rule, but decided by the needs, case by case. The *a priori* conditions are that, basically, each body must itself determine whether co-operation will give it some added value”. The country papers reveal some differences in national approaches to co-operation with the ECA.

14. The option in the Treaty for SAIs to take part in ECA audits is interpreted in a variety of ways. The policy of the United Kingdom’s SAI envisages not participating at all in some audits “when there are good reasons for not doing so”. On the other hand, the Portuguese SAI “has accompanied every Court of Auditors audit on Community revenue and expenditure carried out in Portugal”. For some SAIs, the extent of participation appears to be decided pragmatically in the light of available resources (presumably the dominant constraint in the United Kingdom’s case). The Swedish SAI is prepared to recruit auditors to accompany the Court, but now thinks that its initial arrangements for liaison were inadequate.

15. In the above-mentioned cases, participation has normally taken the form of attaching a representative of the SAI to the ECA audit team as an observer. The Austrian SAI believes in a more active form of participation which raises the question whether its independence would be compromised by active participation in an audit initiated and executed by the ECA. The SAI solved the problem by means of “an independent audit, which was announced to the auditees”. This means that “the SAI examined the same subjects as the ECA” and “used its own methods and evaluations of audit findings, its own reporting procedure as laid down in the constitution and the Court of Audit Act”.

16. Following earlier discussion in the Contact Committee framework, the SAIs and the ECA have been co-operating since the early 1990s to carry out a limited number of joint audits. These are audits in which the ECA and one or more SAIs pool their resources in a single audit enquiry. As a variant on that idea, there have also been some experiments with parallel or co-ordinated audits, in which two or more audit bodies carry out separate enquiries into the same subject area. The Austrian formula for participating in ECA audits (see previous paragraph) is a parallel audit in all but name.

17. Several SAIs emphasise the educative value (for both parties) of joint audits. SAIs also draw attention to the relatively heavy demands which all forms of co-operation with the ECA place on their available human resources. The Portuguese SAI expresses its support for joint audits in the following terms: “In spite of the difficulties and additional costs involved, the experience continues to be regarded as positive and enriching as it allows for a useful interpenetration of knowledge in areas which are particularly relevant to integration, and provides an opportunity for an exchange of experience as to audit methods and procedures which mutually benefits both SAIs and encourages the necessary uniformity for the development of co-ordinated audits”. The verdict of the Austrian SAI is less positive: “Generally speaking, and in consideration of tight resources (money, personnel time) of the [SAI], it has a reserved position relating to joint audits with the ECA...because the efforts and expenditures for planning and co-ordinating the joint audits are considerable”. The United Kingdom country paper draws attention to the difficulties of parallel audits, and the rather greater difficulties which can arise with joint audits. Joint audits are at present under review within the framework of the Contact Committee.

18. Another form of co-operation between SAIs and the ECA relates to the ECA’s obligation under 188.c.3 of the Treaty to “provide the European Parliament and the Council with a statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying actions.” This is a very specific responsibility, comparable to the audit opinion or certificate which is the normal conclusion of an auditor’s work in the private sector. It places a big onus on the auditor — in this case the ECA — to ensure, and if necessary to be able to demonstrate, that his conclusion is supported by the audit evidence.

19. Following discussions in the Contact Committee, the ECA has been seeking to negotiate bilateral arrangements with SAIs on a voluntary basis in order to enable it to use the results of SAIs’ audit work as an input to the SOA. The object of the negotiations is to reduce the ECA’s workload in connection with the SOA and/or to strengthen the basis on which the SOA rests. A key question is the extent to which the ECA is satisfied that the SAI’s audit results are reliable. There is an affinity here with the recent initiatives of the Commission referred to in paragraph 7 above. In both cases, the national control bodies operate according to standards laid down by or agreed with Community institutions. The negotiations have not yet been concluded, but if they are successful it might suggest that this sort of arrangement, in which the roles of the two parties are complementary rather than additive, represents a more cost-effective model of co-operation for the future than joint audits.

4. Co-Operation With The Commission

20. There is no provision of EU law which bears directly on contacts between SAIs and the Commission, and until recently such contacts were infrequent. The United Kingdom’s SAI has found such contacts valuable, for example in the case of preparing for the investigation into fraud and irregularity against schemes under the Common Agricultural Policy. The country papers suggest that SAIs are beginning to take a closer interest in the Commission’s activities.

21. The Finnish SAI has asked to receive regular up-to-date information about Commission audit missions to Finland and about transfers of funds which the Commission makes directly to Finnish residents (of which the national authorities have no automatic knowledge). The SAI regards Commission auditors as internal auditors and takes the view that information about Commission audit visits is as necessary to the national external auditor as information about the results obtained by national internal auditors. The data about direct transfers to Finnish beneficiaries are needed to enable

the SAI to fulfil its duty under national legislation to verify the correct handling of all EU funds transferred to Finland, whether budgeted or not.

22. The country papers reveal divergent responses to the two Commission initiatives referred to in paragraph 7 above. In France, Sweden and the United Kingdom, the national authorities have appointed their SAIs as certifying bodies under Regulation 1663/95. In recognition of the unusual nature of their role in this matter, the French SAI has set up an auditing commission to handle the certification work, and the United Kingdom's SAI has entered into a contractual relationship with its national paying agency. However, comparable proposals by the national authorities in Denmark and Finland have been resisted on grounds of principle by the SAIs of these countries. These SAIs have emphasised that they do not think it appropriate for SAIs to be involved either directly or indirectly in the negotiations between the Commission's financial controller and national control authorities about Structural Fund protocols. (See paragraph 16 above, and paragraph 17 of SIGMA Paper No. 19: *Effects of European Union Accession—Part 1, Budgeting and Financial Control.*)

5. Concluding Remarks

23. EU legislation allows the SAI of a new Member State considerable freedom to decide how active a role it wishes to play in the control and audit of EC funds. Even the liaison obligation under Article 188c.3 of the Treaty is not automatically binding on SAIs in all circumstances. As the present paper has shown, there is considerable diversity of approach among existing EU SAIs.

24. Nevertheless the impression given by the country papers is that most EU SAIs wish to continue to develop their co-operation with the ECA and other SAIs, and with the European Commission notwithstanding the formal and other obstacles sometimes encountered. The Portuguese SAI has put the argument for co-operation in the following terms: "As national interests pertaining to control become increasingly harmonised with those of the European Court of Auditors, especially in projects or programmes co-financed by the European Union and the European Member States, so co-operation between the Portuguese Court of Auditors and the European Court of Auditors has intensified."

25. It is not too soon for SAIs of applicant countries to start to plan for their post-accession participation in the co-operation process. Their membership of INTOSAI and EUROSAI enables them to benefit from the experience of existing EU SAIs and the ECA. Informal contacts with the Commission (DG XX) could also help to familiarise applicant countries with the structure of EU financial control and audit generally, and the role of the various Commission control services in particular.

26. These SAIs should also give very early consideration to the adequacy of (i) existing state audit legislation, and (ii) their human and other resources. The principal question which arises under (i) is whether the SAI's existing legal powers are sufficient for the purposes of its liaison role under Article 188c.3. of the Treaty. The second question relates as much to the skills and experience of staff as to their number. Staff involved in the audit of EU funds will need the same sort of audit and accounting skills as their opposite numbers in other SAIs and the ECA. Language training will be an essential part of this equipment.

AUSTRIA
By Wolfgang Wiklicky²

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2. Wolfgang Wiklicky serves since 1986 as Auditor at the Austrian Court of Audit (ACA) and since 1996 as Liaison Officer of the ACA and Deputy Head of the Department for European Affairs in the ACA. For the past seven years, he has also been Lecturer at the Federal Academy of Public Administration. Previsouly, he was Assistant Professor for advertising and market research at the Vienna University of Economics and Business Administration (1982-1986).

1. Chapter Summary

27. This paper describes some aspects of external audit in the Republic of Austria comprising legislation and organisational structure.

28. Austria acceded to the European Union on 1 January 1995. Hence, the relationship between the Austrian Court of Audit (ACA) and the European Court of Auditors (ECA) is outlined. Emphasis is on practical points including liaison arrangements, guiding principles for the relationship, information flows and participation in audit. The guiding principles for the relationship between the Austrian Court of Audit — as an independent body — and the European Court of Auditors must be characterised by trustful relations between equal partners.

29. Austria's accession to the European Union did not affect the legal competence of the ACA for its audits. They were not enlarged. The scope of audit, however, expanded. The ACA is responsible for the audit of all money flows — and the relevant financial operations — which the Austrian Government receives from the European Union (e.g. money from the Structural Funds of the Community) and which are to be executed through public accounts at the federal and provincial levels. Furthermore, the Austrian Court of Audit is responsible for the audit of the Austria's financial contribution paid to the resources of the EU. These audits comprise examining compliance with existing rules and regulations, including the relevant EC legislation, with regard to the various sources of funds.

30. However, as a result of Austria's accession to the European Union and mainly due to the activity of the European Court of Auditors (ECA) in Austria, an essential part of the ACA's additional administrative tasks had to be covered by existing resources (staff, budget). In other words, the ACA basically was not granted additional posts or financial funds to cover the expenditures and resources followed by EU accession. In order to manage the continuous contacts with the ECA, some new arrangements within the organisation of the ACA were necessary, e.g. a Liaison Officer function was established.

31. In order to execute its audit tasks in the most objective and unbiased manner, the ACA is independent of the Government administration. As a matter of principle, it is accountable — by means of annual reports and special reports — to the legislative bodies (National Council and provincial parliaments) only. After submission, the reports must be published.

32. In the light of the constitutional and legal prerequisites of the ACA, it does not fulfil any tasks with regard to anti-fraud arrangements at present. Nevertheless, the ACA's external audits may work as a practicable preventive tool against fraud.

33. The ACA has participated in one joint audit (together with the ECA and several other SAIs) on the incompatibility of the various sources of information in the field of indirect taxes in the Member States. This audit will result in a joint report.

2. Introduction

34. Austria, as a federal republic, has a federal structure, which means that the legislative, executive and judicial powers are divided between the central government (of the Republic of Austria), also called the federal Government, and the governments of the nine constituent states (known as federal Provinces, Provinces or *Länder*).

35. The existence of the Austrian Court of Audit (ACA) is guaranteed by the Constitution (Title Five of the Federal Constitutional Law, Article 121 to Article 128). The legal statutes are essentially embodied in the Court of Audit Act of 1948.

36. The ACA is independent of the federal Government and reports directly to the National Council (First Chamber of Parliament). The ACA is not, therefore, an administrative authority but should be seen rather as an integral part of the legislature. It is directly subordinated to the National Council.

37. The scope of audit of the ACA comprises administrative authorities, specified entities and specified enterprises on both the federal and provincial level. The ACA is the one and only body in Austria that holds this wide range of power in public external financial control.

38. The Republic of Austria acceded to the European Union on 1 January 1995. The accession of Austria to the European Union did not affect the legal competence of the ACA for its audits. They were not enlarged.

39. The scope of audit, however, expanded. The ACA is responsible for the audit of all money flows — and the relevant financial operations — which the Austrian Government receives from the European Union (e.g. money from the Structural Funds of the Community) and which are to be executed through public accounts at federal and provincial levels. Furthermore, the Austrian Court of Audit is responsible for the audit of Austria's financial contribution paid to the resources of the EU. These audits examine the compliance with existing rules and regulations, including the relevant EC legislation, with regard to the various sources of funds.

3. Aspects Of External Auditing In Austria

3.1. Legislation For External Auditing

40. The provisions governing the organisational set-up and tasks to be fulfilled by the ACA are laid down in Title V (audit and financial operations) of the Federal Constitution in its 1929 version. The duties and tasks incumbent upon the ACA are further specified in the 1948 Court of Audit Act.

3.2. Organisational Structure For External Audit

41. As mentioned above, the ACA is directly subordinated to the National Council. The audit function is carried out at the federal and the provincial levels. The audit functions of the ACA are comprehensive and unique, as it is a completely independent (in the sense of executive powers) body of public external audit in Austria.

42. Functionally, the ACA is an organ of the National Council and the provincial diets (parliaments of the Provinces), depending on whether it examines the financial operations of the federal or provincial governments.

43. In order to execute its audit tasks in the most objective and unbiased manner, the ACA is independent of the government administration. As a matter of principle, it is accountable — by means of annual reports and special reports — to the legislative bodies (National Council and provincial diets) only. After submission, the reports must be published.

44. The organisational structure of the external audit function in Austria has not been influenced by accession to the European Union.

45. However, as a result of Austria's accession to the European Union and mainly due to the activity of the European Court of Auditors (ECA) in Austria, an essential part of the ACA's additional administrative tasks had to be covered by existing resources (staff, budget). In other words, the ACA basically was not granted additional posts or financial funds to cover the expenditures and resources followed by EU accession.

46. In order to manage the continuous contacts with the ECA, some new arrangements within the organisation of the ACA were necessary, e.g. a Liaison Officer function was established (see below, points 4.2 and 4.4.1).

3.3. *Focus Of The Audit*

47. The audits examine the correctness of accounting and compliance with existing regulations, as well as the economy, efficiency and effectiveness of operations. The ACA shall in no account limit its examinations to a checking of the mathematical correctness of accounting.

48. In practice, performance audits are the most common type of audit. This means that economy, efficiency and effectiveness of the financial management and operations are the main focus. However, in cases of discrepancy between economy, efficiency and effectiveness on the one hand, and legality and compliance with existing rules on the other hand, the ACA has to point out clearly those divergences.

3.4. *Systems, Methods, Routines And Procedures For External Audit*

49. Generally speaking, Title V of the Constitution and two simple laws — the Court of Audit Act and the National Council's Standing Orders — represent the cornerstones of the system of public external audit in Austria. It is important to note that as a matter of principle, the initiative to conduct audits rests with the ACA itself. Basically, the ACA conducts its audits *ex post*.

50. Within this system, the ACA uses a variety of different methods, routines and procedures. Examples are: audit plans for one year and preview for the next period; specific audit plans which determine the different fields and subjects to audit in a more detailed manner; statistical sampling procedures; and risk analysis based on experiences from former audits in order to select the relevant elements for in-depth examination. Furthermore, the ACA's audit manual provides useful information for specific topics by giving theoretical background, procedures to apply and checklists.

51. While auditing on the spot, the following is particularly important:
- examination of all documents—books, vouchers, contracts, correspondence, files and entries of the accounting offices, etc. , including electronic data processing (EDP)-files—which the ACA considers to be necessary;
 - study and analysis of balance sheets and reports of private chartered accountants;
 - interviews with officials and other representatives of the auditee;
 - use of questionnaires; and
 - spot checks on cash at hand.
52. For its audits, the ACA is authorised to employ experts.
53. In conducting its audits and disclosing its findings, the ACA — and any employed experts — shall not violate business and trade secrets.

3.5. *Scope Of Audit*

54. The president of the ACA, or the ACA itself are, *inter alia*, specifically entrusted with:
- drawing up the federal financial statements;
 - countersigning all instruments involving financial debt (duty of the ACA president);
 - examining the financial operations of the federal Government [including the financial operations of all endowments, funds and institutions administered by federal agencies or persons (bodies) appointed for that purposes by agencies of the federal Government]. This right furthermore includes enterprises, in which the federal Government, alone or together with other legal entities subject to the authority of the ACA, hold at least 50 per cent of the share capital, capital stock or equity, as well as the financial operations of enterprises wholly operated by the federal Government or operated together with such legal entities;
 - an equivalent scope of audit exists with regard to the financial operations of the provinces, local authorities in communities with at least 20 000 inhabitants, and Community associations;
 - examination of the financial operations of corporations under public law using federal funds or province funds;
 - examination of the financial operations of other bodies designated by law;
 - examination of the financial operations of the social insurance institutions; and
 - audit of the financial operations of statutory professional representations.
55. Within the scope of audit assigned to it, it is the discretionary decision of the ACA to examine all money flows from the EU funds to Austria — including the respective organisational structures, administration of the governments and the systems of internal audit — and to audit the compliance of the Austrian financial contribution to the EU Budget with existing rules and regulations including the relevant EC legislation. This could be seen as an enrichment rather than an enlargement of the audit activities of the ACA.

3.6. Division Of Responsibility Between ACA And Other Auditing Bodies

3.6.1. Task of the ACA

56. The powers of ACA extend to the examination of the entities for internal audit both at federal and provincial level and to the examination of entities responsible for external audit at provincial levels. Thus, the ACA's responsibility covers the widest range of audit in the Republic of Austria.

57. Preparing its audits the ACA makes efforts to co-ordinate its activities with those entities responsible for internal audit at the federal level and those entities responsible for internal and external audit at provincial levels.

3.6.2. Federal Level

58. Within the organisation of each federal ministry, there exist bodies responsible for internal audit of the respective ministry. In general, internal audit is independent from the administration and is, as a model, directly subordinated to the relevant minister to whom it submits the reports.

3.6.3. Provincial Level

59. Within the provincial governments, there exist different organisational entities which are responsible for internal audit on the one hand, and for external audit on the other hand. The responsibility and scope of internal or external audit of those entities is restricted to the financial management of the respective provincial government.

60. In general, internal audit at provincial levels is, as a model, independent from the administration and directly subordinated to the relevant provincial governor to whom reports are submitted.

61. The entities responsible for external audit within the provinces are independent from the administration too, although they are, in an organisational sense, part of the provincial government. However, in executing the audit functions, they are subordinated to the respective provincial diet and submit the reports to it.

3.6.4. Responsibility of Governmental Audit Entities in EU Context

62. The entity responsible for internal audit within the federal Ministry for Agricultural Affairs, and the respective entities within three provincial governments, have been charged with tasks as the certifying agency of the paying agencies regarding the European Agricultural Guidance and Guarantee Fund (EAGGF) (see Council Regulation (EC) No. 1287/95 and Commission Regulation (EC) No. 1663/95). In this specific context of executing European Union duties, neither the ACA nor private firms (chartered accountants) play a significant role.

3.7. *External Audit And Anti-Fraud Arrangements*

63. In the light of the constitutional and legal prerequisites of the ACA, it does not fulfil any tasks with regard to anti-fraud arrangements at present. Nevertheless, the ACA's external audits may work as a practicable preventive tool against fraud.

4. *Relationship Between The ACA And The European Court Of Auditors (ECA)*

4.1. *Legislation*

64. According to the provisions of Article 188c of the Treaty on the European Union, the ECA is the Community's external auditor. Hence it follows that the ECA has the autonomous power — based on primary Community legislation, and regardless of whether or not the supreme audit institutions of the Member States have relevant competence — to carry out its audits in the Member States and among the institutions of the Community.

65. The ECA is responsible for the audit of all Community expenditure and revenue in much the same way as the ACA is responsible for auditing the financial management and operations at the federal, provincial and municipal levels.

66. The Treaty on the European Union requires the ECA to give a Statement of Assurance (SOA) on the reliability of accounts. It must also examine the legality and regularity of the underlying transactions. This type of audit is, as a financial audit, the unique task of the ECA.

67. Article 188c of the Treaty states the following about the co-operation and co-ordination between the ECA and the national audit bodies: “In the Member States, the audit shall be carried out in liaison with the national audit bodies or, if these do not have the necessary powers, with the competent national departments.”

68. Regardless of whether a national supreme audit institution (SAI) (having the necessary powers) co-operates “in liaison with” the ECA or not, the ECA has an independent right to conduct audits in the Member States (on the spot) based on primary Community legislation. Indeed, the same Article of the Treaty provides, that “The audit shall be..., if necessary, performed on the spot in the other institutions of the Community and in the Member States.”

4.2. *Contact Committee And Meetings Of The Liaison Officers*

69. In order to establish a continuous flow of information between the ECA and the supreme audit institutions of the Member States, two (informal) vehicles exist (informal meaning that there are no written regulations and formal procedures). These are the meetings of the Liaison Officers and the Contact Committee of the presidents of the SAIs. The meeting of the Liaison Officers is convened twice each year (in spring, a SAI of a Member State acts as host; in late summer or early autumn the meeting is usually convened by the ECA in Luxembourg). The task of these meetings is to prepare the subjects for the Contact Committee of the presidents of the SAIs of the Member States, which convenes once a year (held in late autumn; every second meeting is hosted by the ECA).

70. Since 1995, the following topics, inter alia, have been discussed in these meetings (the preparation of some themes has been delegated to *ad hoc* working groups among the Liaison Officers):

- possibilities of co-operation between ECA and SAIs in the field of joint audits;
- practical meaning of the wording “in liaison with” in Article 188c of the Treaty on the European Union (this is the crucial point of the entire relation between ECA and the SAIs and has never been resolved or wholly clarified since the foundation of the ECA in 1975);
- European standards for audits on the basis of the INTOSAI Auditing Standards;
- VAT audit in the Member States;
- application of Article 92 and Article 93 (notification of aid granted by Member States) in the Member States;
- co-ordination of audits done by ECA and the Commission in the Member States (this item is particularly important); and
- progress reports on the discussions in the Intergovernmental Conference, insofar as the relationship between ECA and the SAIs of the Member States is concerned (proposal of ECA for a new Article 188.5 of the Treaty referring to the access of ECA to the European Court of Justice in order to preserve its rights and prerogatives against the Member States).

71. It has to be stated clearly that the organisation of a meeting of the Liaison Officers and furthermore of the Contact Committee leads to heavy expenditures (mainly caused by costs for the translation of papers and for interpreters and related equipment) for the SAI acting as a host. For example, at the Liaison Officers meetings, English, French and German are usually spoken. At Contact Committee meetings, each delegation is free to use their national language. This implies that interpretation into nearly all other EU languages is required.

4.3. *Guiding Principles Of The Relationship Between ACA And ECA*

72. From the viewpoint of the ACA (viewpoint shared by the ECA), the relationship is characterised by trust between equal partners. In practice, this means that all information exchange, co-operation and co-ordination with the ECA in cases of (joint) audits or financial audits for the purpose of the Statement of Assurance rests upon voluntariness of the ACA. The ECA has respected this viewpoint so far.

73. The ECA regularly sends its annual report, its report on the Statement of Assurance, and other special reports to the ACA for further use. Vice versa, the ACA's annual report — which is open to the public after submission to the National Council — is transmitted to the ECA.

4.4. Practical Experiences Of The ACA With Regard To The ECA

4.4.1. Announcements of Audits and Information Flows

74. The ACA is the ECA's point of contact. The ECA notifies the ACA on a four-month rolling basis about its planned audit activities. Individual audits are generally notified to the ACA six weeks in advance.

75. For a number of financial audits concerning the Statement of Assurance, the six week period has proven in practice to be short because of detailed information inquiries of the ECA required in order to prepare the audits. These information inquiries are directed to the ACA which passes them on to the competent authority within the Austrian Government. Later on, the ACA forwards the respective information and documents back to the ECA. In case of urgency, direct contacts between ECA and the competent entities of the government may take place, if the ACA is kept informed about these contacts and results.

4.4.2. Audit Fields of the ECA

76. The ECA conducts financial audits and performance audits in the Member States. On the occasion of performance audits by the ECA, the main focus of audit is on the outcome of a particular policy. This type of audit entails an evaluation of systems and mechanisms put in place to achieve the desired objectives. Expenditure and income is examined from the value-for-money point of view, and inevitably involves a degree of financial audit, if only to test the operation of the systems.

77. So far, the ACA has more experience with financial audits done by the ECA. This type of audit aims to check that amounts due to and owed by the European Union have been duly established, recorded, entered into the accounts, paid or recovered. This work is generally done within the context of the Statement of Assurance.

78. Such financial audits carried out by the ECA in Austria during 1995, 1996 and the first four months of 1997 predominantly concerned the European Agricultural Guidance and Guarantee Fund (EAGGF). The main focus of these audits was on compliance with rules and regulations, and the correctness of entries and accounts.

4.4.3. Participation of the ACA in Audits of the ECA

79. Article 188c.3. of the Treaty on the European Union provides that, inter alia, the national SAIs shall inform the ECA whether they intend to take part in the audit.

80. The ACA (auditors of the respective audit department) voluntarily took part in the audits the ECA carried out in Austria. The ACA did so by means of an independent audit, which was announced to the auditees. This means that the ACA examined the same subjects as the ECA (comparable to a parallel audit of the ACA). The ACA used its own methods and evaluations of audit findings, and its own reporting procedure as laid down in the Constitution and the Court of Audit Act. An advantage of this procedure is that the ACA is able to report authentically to the National Council on the activities of the ECA in Austria. Besides that, this procedure gives the opportunity to the ACA to gain in-depth experiences on the spot of the ECA audits.

81. Generally speaking, and in consideration of the tight resources (money, personnel time) of the ACA, it has a reserved position relating to joint audits with the ECA. Discussions and experiences have indicated that in conducting joint audits there must be, as a prerequisite, a subject of common interest and some expected benefit for all participating SAIs because the efforts and expenditures for planning and co-ordinating the joint audits are considerable.

82. The ACA has participated in one joint audit (together with the ECA and several other SAIs) on the incompatibility of the various sources of information in the field of indirect taxes in the Member States. This audit will result in a joint report.

4.4.4. Audit Findings of the ECA

83. A typical audit of the ECA gives rise to a mission report (for internal use of the ECA only) and two sector letters, one sent to the Commission and the other sent via the ACA to the entity audited. The auditee is normally given two months to reply (for purposes of the Statement for Assurance a tighter deadline is sometimes necessary).

84. The entity audited sends its reply via the ACA to the ECA. At this step of procedure, the ACA may, but is not obliged to, make an additional remark to the reply of the entity audited. Basically, this is done independently from the national audit procedure the ACA initiated in taking part in the audit of the ECA.

85. The ECA sends a copy of the replies it receives from the auditees in the Member States to the Commission.

86. It is important to note that the Commission bears the final responsibility for the implementation of the budget even if it is the Member States who actually administer the expenditure and income. Neither the governments of the Member States nor the SAIs take part in the procedure which takes place between the ECA and the Commission in order to prepare the ECA's annual report or special reports.

87. Once the final text has been agreed by the members of the ECA, it is published in the Official Journal of the EU together with the Commission's reply, but not with the replies of the Member States. Nevertheless, the ECA and/or the Commission can take these replies into consideration; this is left to their discretion.

88. The reports of the ECA are taken into account by the European Parliament as part of the discharge procedure (formal acceptance of the Commission's execution of the budget).

89. Austria has only limited experience with the reporting practices of the ECA, because the findings, which were published in November 1996, revealed no serious problems.

5. Relationship Between The ACA And The Commission

90. As an institution of external public financial audit, the ACA has no direct relationship with the Commission. There is no formal continuous flow of information between the Commission and the ACA, and vice versa. However, the Liaison Officer meetings are a vital part of information exchange.

91. The ACA uses the Official Journal of the EU, is kept informed on certain issues related to the Commission (e.g. SEM 2 000) by the government, and makes use of posing questions directly to the Commission.

DENMARK
By Hans Andersen³

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3. Hans Andersen is Head of Division responsible for the audit of the Ministry of Food, Agriculture and Fishery and Nordic co-operation activities. As an economist, he worked for the UN in Mozambique before joining the Office of the Auditor General of Denmark in 1984. He has audited international co-operation and agriculture activities and was on secondment to the European Court of Auditors from 1991 to 1995 auditing EAGGF expenditures.

1. Chapter Summary

92. European Union revenue and expenditure in Denmark are included in the annual appropriations of the Government. This implies that the Office of the Auditor General (*Rigsrevisionen*) has the overall responsibility for the external audit of the funds. The organisation of the *Rigsrevisionen* corresponds to the set-up of ministries; as a general rule, each audit division audits a particular ministry. The second and ninth divisions are especially involved in the audit of EU funds in so far as they are responsible for the audit of the Ministry of Food, Agriculture and Fisheries and the Ministry of Taxation. Up to now, almost all funds have been allocated to the agriculture sector, but because co-operation is increasing in other areas, other divisions are becoming more involved.

93. The relationship between the *Rigsrevisionen* and the European Court of Auditors (ECA) is based on co-operation between equal partners and has progressed without any major problems. It is likely that the similarity in authority and methods of the two institutions have contributed to this fruitful co-operation. In addition, the *Rigsrevisionen* makes efforts to develop the relationship by holding as many positions in the ECA as possible, by participating in Contact Committee meetings, Liaison Officers meetings, working groups, by exchanging reports and making visits. For constitutional reasons, the relationship between the *Rigsrevisionen* and the European Commission takes place on a voluntary basis only.

94. The concentration of all international relations in the secretariat of the Auditor General has made it possible to co-ordinate all external relations and to provide the Auditor General with complete and precise information on all communications with the ECA. It has also made it possible to provide good service to the ECA and visiting auditors, as well as internal assistance to audit divisions that only have limited contact with the ECA.

95. The responsibility for financial and performance audit of EAGGF–Guarantee and Guidance funds — which accounts for 95 per cent of all EU expenditure in Denmark — has been concentrated in a particular EU unit of the *Rigsrevisionen*. The unit co-operates with the ECA in the detailed planning of audit visits and provides assistance to the implementation of on-the-spot investigations. Most of the financial audit tasks are delegated to an internal audit body of the Danish paying agency which has also been given the responsibility for the certification of accounts.

96. The establishment of only one paying agency has simplified the administration and external audit of EAGGF–Guarantee funds and has greatly facilitated the communication between the various administrative, controlling and auditing bodies. The electronic data processing systems of the paying agency have gradually become obsolete and are now in the process of being replaced. This, however, does not diminish the advantage of this set-up.

97. It is difficult to estimate the resources required for the audit of EU funds because audit prerequisites and methods are constantly changing; indeed, new tasks are assigned to the administration and private audit firms are becoming more involved, etc. It can be stated, however, that the audit of EAGGF funds of around Dkr (Danish kroner) 10 billion annually requires 8 internal auditors and 4-5 auditors in the *Rigsrevisionen*. In addition, the Secretariat use about 10 person-months annually on external relations with EU institutions over and above resources used for Contact Committee meetings.

98. Audit of EU funds requires special knowledge and skills, *inter alia*, in languages, EC legislation and organisation and statistical sampling methods — all of which can not only be acquired through training courses but also need to be learned on-the-job.

2. Introduction

99. This paper provides a general description of the external audit practices in Denmark in relation to EU funds. The focus, however, is on the audit of EAGGF-Guarantee section funds, because of their particular importance.

100. Today, it is difficult to determine the impact which European Community accession in 1973 had solely on the external audit process in Denmark and to separate this from the impact of other important events. A new Auditor General's Act was, for instance, adopted in 1975 and resulted in subsequent years in a number of changes in the methods and focus of the audit.

101. This paper concentrates on more recent changes in audit prerequisites, such as the establishment of an internal audit body in the paying agency, the Statement of Assurance of the EU accounts by the European Court of Auditors (ECA), the establishment of a certifying body in relation to the EAGGF accounts and the sound financial management SEM 2 000 programme of the European Commission.

102. It should be noted as a particular feature of the Danish administration that EU funds since accession have been highly concentrated in the agriculture sector and that the funds have been managed by only one paying agency.

103. For a number of years following accession, the administration and internal control systems were considered to be relatively modern and cost-effective. In general, the systems met the demands of the Member States and the increasingly complex legislation on agriculture support schemes. However, one important exception was the electronic data processing system which gradually became obsolete. This gave rise to some remarks by the Office of the Auditor General and the European Court of Auditors and, as a result, a new integrated hardware and software system is being established.

3. Aspects Of External Auditing

3.1. Legislation For External Audit

104. EU subsidies are usually included in the annual appropriations, and the actual expenditure and revenue appears on the government accounts. In Denmark, an appropriation is not only a mandate to carry out the related activities, it also places the responsibility for spending directly with the minister. In principle, EU funds paid to government authorities, private persons or local authorities are not distinguishable from any other state subsidy. This implies that the Office of the Auditor General of Denmark (*Rigsrevisionen*) has the competence to audit these transactions; further, EU subsidies are exposed to the same audit requirements as national subsidies.

105. It should be noted, however, that it is not required by European regulations how the *Rigsrevisionen* should audit EU subsidies. The European Commission and the Council of the

European Communities (CEC) are also not involved in setting up particular requirements as to the content of the audit. External audit of institutions or individuals receiving EU subsidies is consequently a national affair.

106. In the foundation for the various EU systems of subsidies, varying degrees of requirements to implement control appear in relation to the terms of subsidies. The control tasks rest upon the Danish authorities who administer the arrangements in question but an auditor may be chosen to undertake one or more control tasks for the institutions receiving subsidies.

107. Although there were no formal requirements for the supreme audit institutions (SAIs) of the EU Member States to fulfil before accession in 1973, the impression remains that the SAIs were under some unofficial expectations. For instance, it was expected that EU funds were audited to the same extent as national funds and that the audit was carried out according to international standards. It was also expected that the audit was carried out on an independent and *ex post* basis by sufficient numbers of competent staff. The *Rigsrevisionen* had the necessary authority and competence and has never had any problem in fulfilling these very general expectations.

108. The present state audit system is based on legislation which came into force on 1 January 1976. It consists of the law of 26 June 1975 on the Auditor General's Act (see Act No. 321 with incorporated amendments, Act No. 245 of 22 April 1991 and Act No. 465 of 12 June 1996), and the law of the same date concerning the Parliament's Public Accounts Committee (PAC), (see Paragraph 47 of the Constitution).

109. In administrative matters, the *Rigsrevisionen* is under the authority of the Danish Parliament. The *Rigsrevisionen* independently performs its duties and reports to the six members of the PAC who have all been appointed by the Parliament. The PAC and no one else may request the *Rigsrevisionen* to perform specific investigations.

110. The *Rigsrevisionen* and the PAC control on behalf of the Parliament whether the revenue and expenditure of the Government are in compliance with the budget appropriations granted and legislation in general, and whether sound financial management has been applied in the administration of the funds. In brief, the *Rigsrevisionen* has the same authority in the performance of its duties as the ECA.

111. The Parliament has by law authorised the ministers to be responsible for the specific administrative areas concerned in order to establish the necessary rules and regulations for the application of EC regulations in Denmark, e.g. the law on administration of EC regulations on common organisation of markets for agricultural products, etc. (Law No. 414 of 13 June 1990, with amendments, the latest of which is Law No. 399 of 14 June 1995).

3.2. *New Prerequisites And Changes In Audit Focus*

112. Since the accession of Denmark to the European Community in 1973, the *Rigsrevisionen* has experienced constant changes in the prerequisites for audit and has correspondingly changed the focus of the audit. Some of the major changes have, however, not been related to accession as such, but more to general changes in the audit prerequisites.

113. At the time of accession, the *Rigsrevisionen* was in the process of a general change in the audit approach from audits primarily based on transaction audit to the more efficient system-based audit. At the same time, higher priority was given to performance audits.

114. Another development was the increase in the number of internal audit bodies which were established in many branches of the ministries. They have been established either in major government institutions or in institutions specialised in the administration of public subsidies.

115. Despite the development in the direction of more projects being related to Structural Funds, i.e. the Regional Fund, the Social Fund and the EAGGF-Guidance Section, Structural Funds still account for less than 5 per cent of all EU funds allocated to Denmark. The overwhelming part of EU funding is still allocated to the agriculture sector through the EAGGF-Guarantee Section.

116. The agricultural reform of 1992 was the main cause of a substantial change within the Guarantee Section from subsidies paid through the processing industry to subsidies paid directly to the farmers. This shift was managed without major logistical problems in Denmark, although the existing computerised payment systems of the paying agency had gradually become obsolete.

3.3. *New Risk Situation*

117. The constant tightening up of rules and regulations related to the EAGGF-Guarantee Section reduced the general assessment of risks of misuse of these funds, and gradually moved the attention towards the Structural Funds which were regulated by general and less precise regulations. The risk and audit focus of EU subsidies shifted in the direction of the Structural Funds.

118. The *Rigsrevisionen* assessed that the risk in these areas was relatively important and carried out two major investigations on the administration of the Structural Funds in 1990 and 1991. These studies resulted in two reports to the PAC recommending, among other things, that the Government should attempt to effect the European Commission to clarify the regulations, and that the Government should establish common rules and instructions for the administration of the funds, in particular concerning accounting and auditing by private auditors.

119. In the last couple of years, there has been an increased focus among EU Member States and EU institutions on a more efficient use of Community funds. In response to this the European Commission has initiated the SEM 2 000 programme. According to this programme, the risk related to the Structural Funds was assessed as high; and the Commission stressed the need for a clarification and harmonisation of the rules governing the funds. In order to meet the higher risk assessment, the Financial Controller of the Commission is now in the process of entering into agreements with individual Member States.

120. In Denmark, it has, however, been difficult for the Commission's Financial Controller to find a central counterpart. Unlike the situation in many other Member States, Danish ministries are rather autonomous in their functions, and there is no co-ordinating ministry with extraordinary powers. Whereas the Ministry of Foreign Affairs and the Ministry of Finance represents Denmark in SEM 2 000, the various ministries responsible for administration of programmes and projects financed by EU Structural Funds are the counterparts of the Financial Controller. Internal control bodies are now being planned or established in these ministries.

121. Provisions in the Maastricht Treaty requiring the European Court of Auditors (ECA) to certify the accounts of the European Communities have led to a change in focus — not only in the ECA but also in the national auditing bodies. This change in focus is from individual arrangements to centralised procedures, including in particular electronic data processing payment systems. This change was significant in Denmark where the Intervention Board's computerised systems had gradually become obsolete. It became clear that a new system had to integrate not only the caseworker system and the payment system but also the financial system in order ensure effectiveness.

122. The change of Council Regulation No. 729/70 concerning the financing of the Common Agriculture Policy (CAP) in 1995 and the currently adoption of rules, e.g. Commission Regulation No. 1663/95, caused a major change in the prerequisites of the audit of EU agricultural funds as described.

3.4. *The Organisational Structure For External Audit*

123. The *Rigsrevisionen* is organised into three departments with 23 divisions, consultant sections and units. The departmental activities are co-ordinated through the Executive Group which meets twice a week and consists of the Auditor General, three Assistant Auditor Generals, the Head of Secretariat and the Head of Administration. The Secretariat and the Administrative Division including the Electronic Data Processing Section attend staff functions. Horizontal tasks are carried out by *ad hoc* established project groups. Permanent professional committees develop methods in three important areas: financial audit, performance audit and development of staff qualifications. As a general rule, each division audits a particular ministry and carries out both systems-based financial audit and performance audit, often as integrated audits.

124. The EU expenditure and EU revenue from Denmark are included in the Government Accounts under the sub-budget of the ministries involved and are audited as national funds by the respective divisions of the *Rigsrevisionen*. The most frequently involved divisions and their tasks are:

<i>The Secretariat</i>	Co-ordinates audits involving several audit divisions and is responsible for international relations, including communication with the European Court of Auditors.
<i>The 2nd Division</i>	Audits the Ministry of Food, Agriculture and Fisheries, i.e. the EAGGF-Guidance and Guarantee Sections which account for about 95 per cent of all EU subsidies. Co-ordinates audits of export refunds on agriculture products with the 9th Division.
<i>The 3rd Division</i>	Audits the Ministry of Labour and the Ministry of Social Affairs, i.e. subsidies from the Social Fund
<i>The 9th Division</i>	Audits the Ministry of Taxation, including custom control procedures and the EU revenue from Denmark. Co-ordinates audits of export refunds on agriculture products with the 2nd Division.
<i>The 10th Division</i>	Audits the Ministry of Business and Industry, i.e. subsidies from the Regional Fund.

125. The Second Division has always played a key role in the external audit of EU funds in Denmark. The division has been responsible for the audit of the majority of EU expenditure in Denmark. From 1980 to 1995, the division was named the “International Division” because it was responsible for external relations including co-operation with the European Court of Auditors. In 1996, this responsibility was transferred to the Secretariat in exchange for other audit tasks.

126. Changes in the prerequisites and focus of the audit, as well as the new risk assessment, not only changed the audit approach in the desired direction, but also resulted in a continuing reduction of staff in the first 10-15 years following the new Auditor General’s Act in 1975, i.e. from 370 persons in 1975 to 250 persons in 1988. This level has been maintained. The *Rigsrevisionen* today employs 270 staff members; there has been a relative increase in the number of auditors compared to the group of assistant auditors.

127. Similarly, the number of staff in the Second Division was reduced from 25 auditors in 1980 to 13 in 1997. The reduction was partly due to the *Rigsrevisionen*’s cuts in general and partly due to the establishment of an internal audit in the paying agency in 1990.

3.5. *Systems, Methods, Routines And Procedures For External Audit*

128. The overall audit concept of the *Rigsrevisionen* is one of:

- System analytical audit and electronic data processing audit;
- Technical/financial audit;
- Performance audit (management audit/value-for-money audit)
 - extensive investigations
 - procedures and individual dispositions;
- Appropriation control.

129. Current audit procedures consist of system analytical audit, financial audit and audit of procedures and individual dispositions. The work is documented in audit reports and is usually followed up by letters to the institutions. Investigations are reported to the PAC in special and annual reports and in memorandums. The PAC makes public the reports and forwards them to the Parliament. The audit concept is illustrated by the way it has been applied at the paying agency.

130. Although the responsibility for the implementation of certain tasks has been delegated to authorising bodies and control bodies, the overall responsibility for the administration of Common Market organisations remains with the paying agency. The paying agency has entered into agreements with directorates administering and controlling EAGGF-Guarantee funds. For instance, the Danish Directorate for Development is the authorising body for a few support schemes in addition to schemes under the EAGGF-Guidance section. Similarly, the responsibility for the implementation of technical control activities is delegated to, among others, the Plant Directorate and the Danish Veterinary Service. An agreement of co-operation has also been signed with the Ministry of Taxation which controls export refunds.

131. Until 1996, the paying agency was reimbursed for expenses for control activities, including activities of other directorates and ministries. Since 1996, however, these reimbursements have been allocated to the bodies actually undertaking the control activities.

132. The system analytical audit implies registration and estimation of procedures and internal control arrangements attached to the financial and accounting systems of the paying agency. The electronic data processing procedures and security together with the internal control are certified. The external control functions are registered and assessed.

133. The technical/financial audit carries out a control that includes: (a) holdings; (b) final balance, i.e. checking the separate EAGGF accounts and the administration accounts against the Directorate-accountancy; (c) vouchers; (d) comparison of computerised lists of product specifications with disbursements of export refunds and payments (checks or transfers); (e) check that EAGGF accounting statements are in accordance with regulations; (f) intervention stocks, e.g. registered products are compared to information given to EAGGF; (g) net loss accounting, e.g. the stockholder's reports and the registered net loss amounts are verified; (h) irregularities/claims for damages; and (i) guarantee accountancy, i.e. control of the Common Market organisations.

134. The audit areas are included in an annual and a revolving perennial plan with considerations given to risk and financial importance. Until the internal audit body in the paying agency became fully operational, the Second Division audited all Common Market organisations within a five-year period.

135. The performance audit (management audit/value-for-money audit) is an analytical audit of the management of the Government's funds. Among other things, it is investigated whether the tasks (individual dispositions of a larger scope, activities, programmes or the total task of an institution) are being executed in the best possible manner, and whether they comply with the objectives, that the Parliament has decided on. One or more of the following aspects are included: economy (Have the goods and services been acquired in the most economical way with regard to quality?), efficiency (Is the level of output at its maximum with the lowest possible use of resources?) and effectiveness (Have the long term objectives and effects been acquired?).

136. Because of the importance and the risk involved in the various schemes, the Second Division completes a performance audit of the paying agency annually. In comparison, the other directorates of the Ministry of Food, Agriculture and Fisheries are examined one-by-one according to a revolving audit plan, i.e. with a periodicity of four years.

137. Following the Auditor General's Act in 1975, the investigations in general became wider in scope. This also applied to investigations of the management of the paying agency and the administration of the various Common Market arrangements. Since 1975, about 15 major investigations have been completed on the administration of EU (EEC) funds in Denmark, and most of them concern agriculture funds. The titles of some of the reports submitted to the PAC illustrate the variety of subjects covered:

- Report on Denmark's Contribution to EEC's Own Resources, Revenues and Expenditure Concerning the Application of Market Arrangements, June 1981.
- EEC Structural Funds. Generally about the Funds, Part I, November 1991.
- EEC Structural Funds. The Activities of the Funds, Part II, January 1993.
- Report on the Administration and Control of EU Intervention Stocks in Denmark, January 1994.
- Report on the Implementation of the EU Agriculture Reform in Denmark, June 1995.
- Report on the Control of Feta Cheese in Denmark, March 1996.

138. In addition, a number of memorandums regarding minor investigations have been submitted to the PAC, e.g. as a follow-up on earlier reports or preliminary investigations on future reports.

139. The control of appropriations is a comparison of the Government's Accounts with the accounts of the individual Government bodies and a comparison of the appropriations within those accounts. The EAGGF-transfers are included in the national appropriation system and consequently are the *Rigsrevisionen*'s responsibility. An annual report on appropriation control is submitted to the PAC.

140. The Second Division has the overall audit responsibility for the audit of the paying agency but co-ordinates the audit activities with the internal audit body. Special emphasis is put on:

- performance audit;
- financial audit of administrative costs;
- supplementary financial audit of Common Market organisations and other support measures;
- advisory assistance;
- supervision and quality control of Internal Audit/certifying body;
- follow-up on judgements of cases of the Court of Justice; and
- co-operation in a network with other SAIs on CAP.

3.6. External Audit And Anti-Fraud Arrangements

141. The *Rigsrevisionen* does not see itself as an anti-fraud body but tries to prevent fraud and irregularities by auditing to examine that internal control procedures are sound. Potential fraud cases found by an auditor are reported directly to the manager of the institution being audited. The *Rigsrevisionen* supervises to ensure that proper follow-up is carried out on the case. In addition, the *Rigsrevisionen* has requested the various ministries to forward information about uncovered cases of serious fraud and irregularities. If necessary, the internal control procedures will undergo an additional examination in order to tighten up any weaknesses.

142. In relation to EAGGF funds, the *Rigsrevisionen* receives a copy of all reports on fraud and irregularities forwarded to the Commission, but the *Rigsrevisionen* has no co-operative relationship with UCLAF, the anti-fraud unit of the Commission.

143. The *Rigsrevisionen* has requested the ministries to be kept informed about judgements of court cases, including cases brought to the EU Court of Justice, as well as the follow-up on such cases. Presently, the *Rigsrevisionen* is preparing an examination of the financial management of the paying agency and intends to include an examination of the prevention, handling and follow-up on cases of irregularity. For this particular examination, the *Rigsrevisionen* will make use of a set of hypothesis used by the National Audit Office of the United Kingdom about two years ago for a similar study.

4. Relations Between External And Internal Audit

144. Any Minister is free to establish an independent internal audit body or controller body; and over the past 10 years a number of new internal audit bodies have been established. Usually, they are established in accordance with Paragraph 9 of the Auditor General's Act, which enables the Auditor

General to decentralise the responsibility for the implementation of certain tasks to internal audit bodies.

145. It is interesting to note that the Ministry of Food, Agriculture and Fisheries has established two internal audit bodies: one outside and another inside the provision laid out in the Paragraph 9 arrangement with the *Rigsrevisionen*. The former is in the ministerial department, and the latter in the paying agency. The Ministry finds that an internal audit body that is set up outside the Paragraph 9 arrangement allows more independence in the selection of audit tasks and better possibilities to provide advisory assistance to the individual institution of the ministry.

146. Recently planned or established controller bodies in the Danish Directorate for Development, the Directorate of Business and Industry and in the Department of the Ministry of Labour examine internal control procedures and provide information to the management on the quality of the financial management at all levels. It usually gives high priority to advisory functions.

147. One major disadvantage of controller bodies and internal audit bodies established outside the Paragraph 9 arrangement is that the *Rigsrevisionen* has to assess the organisational position of the controller body, the guidelines for the function as well as the audit plans and reports of the body, in order to evaluate to what extent the *Rigsrevisionen* may make use of the audit results and control work carried out. In some cases, these bodies do not have the necessary independence; and, consequently, the *Rigsrevisionen* has to carry out its own audits in order to form an opinion on the accounts. However, the *Rigsrevisionen* still finds the controller bodies very useful in the process of improving procedures and internal controls.

148. Fortunately, overlapping activities are not very common as most ministers have chosen to establish their internal audit bodies in accordance with the Paragraph 9 arrangement. The majority of the internal audit bodies have been established in major government institutions within ministries organised in a structure that gives them a high degree of financial autonomy. A few other internal audit bodies have been established in institutions specialised in the administration of public subsidies. In these institutions, there has been a particular need for the establishment of adequate internal controls and for an internal audit body to control the compliance to the system. The internal audit bodies of the Directorate of Taxes & Customs and the paying agency may, respectively, be mentioned as examples of these types of institutions.

149. An agreement of co-operation is signed between the minister concerned and the Auditor General, if the internal audit body is established in accordance with the Paragraph 9 arrangement. The agreement usually includes a provision requiring the audit activities to be co-ordinated in order to avoid overlapping activities and to respect that the *Rigsrevisionen* still has the overall responsibility for auditing the ministries.

150. In the standard agreement, it is stated that the internal audit body should undertake: financial audit of the annual accounts; assess internal procedures and control; carry out unannounced reconciliations of cash and funds; execute performance audits; control and follow-up of the budget and financial reporting; instigation of special investigations and other investigations usually undertaken by consultant companies; and finally provide advice and assistance on new laws and regulations.

151. In the agreement with the Ministry of Food, Agriculture and Fisheries, the division of audit tasks between the internal audit body (Internal Audit) of the Danish paying agency and the *Rigsrevisionen* is very unlike that of the standard agreement. This is due firstly to the fact that the

paying agency is highly specialised in administering subsidies; and secondly to the fact that the audit of EAGGF-Guarantee funds requires knowledge of a complex set of rules and regulations in addition to that of the national administration. Sometimes the two sets of regulations are even conflicting. Payments are, for instance, registered respectively on a cash basis and on the basis of the acquisition of a legal right to the payment.

152. This requires the Internal Audit to be more specialised in financial audit and to be in closer co-operation with the *Rigsrevisionen* compared to other internal audit bodies. The Internal Audit is neither required to do the financial audits of current costs nor to make reconciliation of cash and funds and performance audits of the paying agency. The Internal Audit also has less time available for special investigations required by its director.

153. The objective of the Internal Audit is to undertake audit tasks related to the administration by the paying agency of the Common Market organisations in Denmark, i.e. to control that:

- the administration by the paying agency is in accordance with EC regulations;
- the internal control procedures in the paying agency ensure that the registrations constitute a reliable basis for the annual accounts;
- the procedures of the paying agency are functioning correctly in relation to payments; and
- the electronic data processing procedures are secure.

154. The *Rigsrevisionen* undertakes all other tasks except some special investigations. These are usually carried out by consultants hired by the paying agency. The internal audit body of the department of the ministry does not interfere in the audit of the paying agency.

155. After a promising start in 1990 and 1991, it soon became evident that the Internal Audit of the paying agency would not be performed satisfactorily due to inadequate staffing and management problems. The agreement was, however, renewed in 1996 for additional 5 years.

4.1. *New Types And Scope Of Audit*

156. Following the modification of Council Regulation No. 729/70 and the adoption of Commission Regulation No. 1663/95, each Member State was required to establish a certifying body. The intention behind the modification was that, as an independent body, the certifying body should supplement an insufficient audit by the internal audit by carrying out additional audits. In Denmark, the Auditor General was by law prohibited from receiving instructions from the Commission or anybody else, apart from the PAC, and from sharing the overall audit responsibility for the State Accounts. This audit responsibility could only be delegated to internal audit bodies in accordance with Paragraph 9 of the Auditor General's Act. It was not foreseen that two internal audit units should be present within the same government institution. Thus, the only solution was to appoint the Internal Audit as the certifying body.

157. This, of course, give the certifying body the same independent function as the Internal Audit body. In order to supervise the certifying body, an audit committee has been established with representatives from the department of the ministry, the paying agency and the *Rigsrevisionen*.

158. The Internal Audit/certifying body and the *Rigsrevisionen* co-ordinate their annual and perennial audit plans at the beginning of the EAGGF year. The annual plan is specified as to activities, time allocated and when and by whom the activities are carried out. It is assessed whether the coverage of the plans of the Common Market organisations, the payment procedures and electronic data processing is satisfactory and whether the resources required are available. During the EAGGF year, the activities are measured against the plan and possible adjustments are discussed.

159. The *Rigsrevisionen* used to do some supplementary audits of Common Market organisations but has since 1996 only completed a few. More emphasis has, however, been put on supervision and quality control tasks.

160. The *Rigsrevisionen* uses a variety of means of supervision:

- quarterly Audit Committee meetings with directors of the ministry and the Intervention Board;
- monthly meetings with the Internal Audit;
- *ad hoc* meetings with Internal Audit on technical matters;
- bimonthly meetings with the Division of Economy;
- an annual evaluation of the fulfilment of the Paragraph 9 agreement and the performance of the Internal Audit;
- participation in all ECA-audits in Denmark and some audits by the European Commission;
- written information provided by the European Commission, the ministry, the Intervention Board, etc.

161. Finally, it should be mentioned that a good relationship and co-operation between the internal audit body and the *Rigsrevisionen* has contributed to satisfactory audit coverage and substantial improvements of the quality of the audit activities.

5. Co-Operation And Co-Ordination

5.1. Co-Operation And Co-Ordination With The European Court Of Auditors

162. The working relationship between the *Rigsrevisionen* and the European Court of Auditors (ECA) is based on Article 188c of the Treaty of the European Economic Communities according to which audits in the Member States are implemented in co-operation with the competent national audit bodies.

163. The methods used by ECA for both financial and performance audits are very similar to those applied in the *Rigsrevisionen*. This has greatly facilitated co-operation.

164. The priorities of the ECA have changed somewhat since the Treaty on the European Union with effect for the 1994 accounts. This required the ECA to provide an annual Statement of Assurance (SOA) on the correctness of the accounts and the legality and correctness of the underlying transactions. In order to fulfil this obligation, the ECA has increased the number of visits to the

Member States and has developed the financial audit with emphasis on statistical sampling methods and the examination of the entire audit trail by way of walk-through procedure.

165. The co-operation takes place in several areas. The Auditor General participates together with the ECA and the presidents of the SAIs of the EU Member States in an annual Contact Committee meeting. In this committee, the co-operation among the institutions is discussed and decided upon in such areas as guidelines for the implementation of INTOSAI Audit Standards, national subsidies (Articles 92 and 93 of the Treaty) and the co-operation between the ECA and the SAIs. Working groups have been established on these subjects and the *Rigsrevisionen* is represented at director level.

166. Selected Liaison Officers from the SAIs prepare the Contact Committee meetings, i.e. they discuss the points on the agenda and other matters of mutual interest. The Head of the Secretariat participates in these meetings in the capacity of Liaison Officer. In 1995, the *Rigsrevisionen* hosted a meeting for the Liaison Officers of the SAIs.

167. The *Rigsrevisionen* is hosting the next meeting of the Contact Committee in October 1997. The practical arrangements for the meeting in Copenhagen are taken care of by a working group established by the *Rigsrevisionen*. Some of the subjects on the agenda will probably be the Government Conference, the co-operation with SAIs of third countries and reports from various working groups on subjects such as working relations between the ECA and the SAIs, national subsidies, VAT on internal trade in the Community and guidelines for implementing INTOSAI Audit Standards.

168. Another important area of co-operation is related to ECA audits in Denmark. In 1995, there were 14 such visits: five concerned the ECA Statement of Assurance (SOA), 3 were on export refunds, 3 on control systems in the area of agriculture, 3 on a parallel audit on aquaculture and 5 on various other subjects. In 1996, there were only 4 audit visits from the ECA, 2 of which were on the SOA. The visits concerned "own resources", per hectare aid, fishery products and aquaculture and the Social Fund.

169. The audits carried out by the ECA must be announced at least two months in advance through a letter from the ECA. In the letter, the Member State in question is informed about the background, purpose, the period of the audit as well as the names of the auditors involved. The *Rigsrevisionen* then informs the relevant public institutions and drafts a detailed audit programme together with the ministry concerned.

170. The audit visits are usually initiated and concluded with meetings in the *Rigsrevisionen* or in the ministry. At the initial meeting, the purpose of the visit and the national experience and interest in the audit are explained and the programme is elaborated further. At the final meeting, the findings are discussed with the concerned heads of division. The *Rigsrevisionen* accompanies the ECA auditors on their inspections in order to facilitate the visit and to explain the purpose, powers, etc., of the auditors to third parties.

171. The reporting practice between the ECA and the *Rigsrevisionen* is described in section 6 on information flow.

172. A third interesting area of co-operation is parallel or common audits with the ECA. Two examples follow.

173. In 1995, the ECA and the *Rigsrevisionen* carried out a parallel audit of some EU structural programs under the Ministry of Fisheries (now included in the Ministry of Food, Agriculture and Fisheries). The separate sets of observations were published more or less at the same time in the annual report of the ECA and the report on control of appropriations of the *Rigsrevisionen*, respectively.

174. Presently, the *Rigsrevisionen* is co-operating with the ECA in an agro-environment investigation. The ECA has informed the *Rigsrevisionen* about the preliminary study and has invited the *Rigsrevisionen* to forward suggestions for the audit planning memorandum. In the initial phase, the *Rigsrevisionen* only participated by requesting or providing information on the subject from the Ministry of Food, Agriculture and Fisheries and the Ministry of Environment. In the final phase in 1998, the *Rigsrevisionen* will undertake an investigation of certain aspects of the study in Denmark.

175. The *Rigsrevisionen* has good and fruitful co-operation with the ECA. In relation to ECA audit visits to Denmark, the *Rigsrevisionen*'s co-operation on exchange of information or participation in various European contact meetings, working groups, etc., has been without any noteworthy problems. The working relationships have been greatly facilitated by the emphasis the *Rigsrevisionen* has put on filling positions at the ECA as members, cabinet staff and particular posts for staff from the SIAs, eg the so-called Institutions de Contrôle Nationale (ICN) agents. In particular, the Danish member of the ECA — the former Auditor General — has had a positive influence on the good relations between the ECA and the *Rigsrevisionen*.

5.2. Co-Operation And Co-Ordination With The European Commission

176. The *Rigsrevisionen* has always stressed the distinction between administrative and controlling bodies at national level as well as at the European level. The Danish administration and the European Commission co-operate on the preparation, implementation and internal control of EU regulations. Parallel to this, the ECA and the *Rigsrevisionen* co-operate in an efficient external audit of the EU expenditure and revenue. The same distinction is found in the Treaty of the European Community. Consequently, the communication between the European Commission and the *Rigsrevisionen* is on a voluntary basis.

177. During the first years following accession, the *Rigsrevisionen* accompanied the Commission on its audit missions, but later this was restricted to missions where the *Rigsrevisionen* itself was planning or implementing audit investigations. Since then, the *Rigsrevisionen* has found it necessary to follow the activities of the Commission a little bit closer. There are two principle motors for this.

178. Firstly, according to the SEM 2 000 programme, the Office of the Financial Controller of the Commission should strengthen internal control and should change the audit approach in the direction of *ex post* controls. As part of the strengthening of the controls of Community funds, the Financial Controller wanted to establish protocols with internal audit bodies auditing Structural Funds in the Member States.

179. In Denmark, the Auditor General could not support this idea as co-operation with the internal audit bodies was regulated in accordance with the Paragraph 9 of the Auditor General's Act. The suggested agreements would not respect the separation of administrative and external audit functions. In addition, it would create practical problems to put the internal audit bodies under the instruction of both the Auditor General and the Financial Controller. For instance, who should decide on the priorities in the audit plan? Finally, the Auditor General has pointed out that the Financial

Controller has until recently been a financial control body in the French sense carrying out primarily *ex ante* controls.

180. Now, the ministries responsible for the administration of Structural Funds plan have recently established internal control bodies mainly in order for these bodies to co-operate with the Financial Controller. The Auditor General is in favour of stronger internal controls and, as such, has no objections to this solution, although there might be a risk of overlapping activities with the *Rigsrevisionen*.

181. Secondly, the change of Council Regulation No. 729/70 and the accompanying Commission Regulation No. 1663/95 has raised some crucial questions.

182. The main objective of the change of regulation was among other to strengthen the control of EAGGF-Guarantee Section funds. The second objective is to regulate the relations between the national bodies involved in the administration of the funds, that is, the responsible ministries, the paying agency, the technical and administrative bodies and not least the internal audit bodies and the certifying bodies. The certifying bodies were required to be established immediately according to the regulation.

183. According to the Auditor General's Act, the Auditor General is not obliged to report to anybody, apart from the PAC, nor does the Act allow a private company to audit a Government institution. The regulation only required the certifying body to function independently of the paying agency. Thus, it was decided that the internal audit body should assume this function. The solution was also regarded as a practical arrangement as it avoided yet another control layer.

5.3. Co-Operation With Other National Audit Institutions, Including Private Audit Firms

184. The *Rigsrevisionen* discusses matters of mutual interest with the professional audit associations in quarterly meetings. However, as EU expenditures and revenues are included in the State accounts, the *Rigsrevisionen* has the overall responsibility for the audit of these accounts. This does not mean that private firms have no role to play. Actually, these firms play a major role in specific fields. They are mainly responsible for compulsory audits on behalf of receivers of subsidies under the Structural Funds and for compulsory audits on behalf of storage owners receiving storage aid for intervention products.

185. The audit of public subsidies by private firms is carried out in accordance with audit instructions that have a foundation in law. The legal basis for audit of products in intervention storage is, for instance, the law on the administration of the CAP's Common Market organisations. Such audit instructions have to be approved by the *Rigsrevisionen* which not only checks the content, but also checks that those instructions are issued in accordance with law. The *Rigsrevisionen* consults the professional audit associations on draft instructions in order to receive their suggestions for improvements.

186. The private firms also provide advisory services to Government institutions in their function as consultants. These services are those which could be hard to get from the *Rigsrevisionen*, either because the services demanded are outside the sphere of the *Rigsrevisionen* or because specific advice on internal control procedures is incompatible with the audit responsibility of the *Rigsrevisionen*.

187. If the firms are providing consultant services in key accounting areas, the Government institutions should inform the *Rigsrevisionen* in advance in order to avoid overlapping activities and wasting resources. The following examples could illustrate the kind of assistance required:

- advice in the process of installing an integrated electronic data processing system;
- assessment of whether the financial part of the computerised system should be based on two separated or integrated set of accounts;
- assessment of staff required in order to fulfil the function of the certifying body;
- hiring of additional personnel working under the responsibility of the head of the Internal Audit/certifying body at a point when the body was short of staff; and
- the establishment of a sampling methodology to be used by the certifying body.

5.4. *Co-Operation With SAIs And Other Audit Bodies In Other EU Member States*

188. The *Rigsrevisionen* is a member of both the INTOSAI and EUROSAI and has always given high priority to international activities and co-operation with other SAIs. It should be mentioned that the *Rigsrevisionen* has for several years now co-operated with many eastern European countries, in particular concerning the exchange of experiences and various training programs.

189. The multilateral co-operation with ECA and the EU SAIs in the Contact Committee meeting and the co-operation among selected Liaison Officers have already been mentioned in this paper in relation to the *Rigsrevisionen's* co-operation with the ECA.

190. In 1996, the *Rigsrevisionen* participated in a seminar on the audit of the CAP hosted by the Swedish SAI. As a result of the seminar, a network was created by the participants and two parallel audits were initiated by groups of participants.

6. Information Flow

6.1. *Management Of Information Flow From The Commission*

191. The *Rigsrevisionen* receives and circulates internally various publications of the European Commission, including the Official Journal of the European Communities and monthly and annual publications. Of course, most of this information concerns the paying agency, and thus the Second Division of the *Rigsrevisionen*.

192. The Second Division has requested the paying agency to forward copies of all up-dates of EU regulations on the EAGGF market organisations, as well as requirements and official interpretations of such regulations. Besides this, the Second Division has also requested the paying agency to forward copies of the minutes of the EAGGF Committee meetings. This has, for instance, proved to be very useful in relation to the Commission Regulation No. 1663/95 on the work of the certifying body. The *Rigsrevisionen* also receives minutes of all Commission meetings in Denmark, as well as the Commission reports following the visits. This is independent of whether or not the *Rigsrevisionen* participates in the meetings.

193. The *Rigsrevisionen* participates in a Commission audit if this overlaps with an activity of the *Rigsrevisionen* or if the audit is of particular importance, for instance an audit of the annual accounts. Depending on the subject, the *Rigsrevisionen* only participates in the final meeting in order to receive the Commission's preliminary observations. Finally, copies of documents are requested if the *Rigsrevisionen* learns of the existence of relevant documents in a meeting.

6.2. Ways Of Reporting To The Commission And The ECA

194. The *Rigsrevisionen* has very limited contact with the Commission for two reasons. First of all, the *Rigsrevisionen* regards the ECA as the official counterpart in EU matters, whereas the Commission is the counterpart of the Danish administration. Secondly, the Auditor General is only obliged to report to the PAC of the Parliament, and no one apart from the PAC may request the Auditor General to undertake a particular activity.

195. The Auditor General informs the ministries of the findings of the audits and examinations, and the ministries are usually free to use this information vis-à-vis the Commission. Visits of the Commission are usually reported to the *Rigsrevisionen* by the ministry being visited and occasionally the visit overlaps with a visit of, for instance, the ECA. If this is the case, the *Rigsrevisionen* co-ordinates the visits, e.g. ensures that the two visits do not interfere with each other or postpone one visit or the other.

196. In order to provide good service to the ECA and to ensure that co-operation is respected, the *Rigsrevisionen* has found it important to stress that the *Rigsrevisionen* is the focal point for all communication between Denmark and the ECA. For the same reasons, the Secretariat has acquired the task of co-ordinating all written communication with the ECA. The advantage is that the Secretariat is fully informed and able to brief the Auditor General satisfactorily on all ECA activities in Denmark. It also allows the Secretariat to provide a useful advisory assistance to divisions with only a limited experience with the ECA. The audit division responsible for the subject of the co-operation is responsible for all communication with the ministry audited. The division can also clarify written remarks and arrange practical matters related to audit visits in Denmark through informal contacts with the ECA auditors.

197. The reporting between the ECA and the *Rigsrevisionen* is related to audit missions of the ECA. Following the audit visit, the ECA Member who is responsible for the audit forwards the preliminary observations to the *Rigsrevisionen*. The *Rigsrevisionen* distributes the observations to the ministries concerned and requests their remarks in advance of the deadline. It is the responsibility of the ministries to inquire with sub-institutions and, if deemed necessary, also with private firms and persons. The *Rigsrevisionen* co-ordinates the answer, ensures that it is complete and follows the guidelines for co-operation.

198. The ECA takes the official answer of the Member State into consideration before publishing the observations in the annual report, the report on the Statement of Assurance or in one of the special reports of the ECA. The *Rigsrevisionen* emphasises the confidentiality of the preliminary observations until they are published. It has, however, been a recurrent experience that reports have been leaked to the press, often in a draft version without the remarks of the Member State. This has, of course, been quite unsatisfactory and the *Rigsrevisionen* has suggested that the Ministry of Foreign Affairs take up the matter in the Budget Committee of the Council. Other Member States have also raised the question, and the Council has on two occasions requested that the ECA should take remarks

of the Member States into consideration before the reports in draft versions are forwarded to the Commission.

199. The discharge procedure is yet another area of reporting, although only indirectly. The reports of the ECA are part of the discharge procedures. The European Commission is currently informed by the ECA of observations made in the Member States. The Commission has requested the Danish paying agency to forward a copy of the remarks to the observation made by ECA. However, the *Rigsrevisionen* having knowledge of the methods, etc., of the ECA, often modifies or clarifies the official answer. Thus, in order to secure that the same answer is handed to the ECA and the Commission, the *Rigsrevisionen* has requested the paying agency to forward a copy of only the official answer from the *Rigsrevisionen*.

200. When the ECA reports are published, the *Rigsrevisionen* provides a note to the Special Committee on EU Budget Procedures chaired by the Ministry of Foreign Affairs with comments on the report. The *Rigsrevisionen* is usually invited to participate in a meeting prior to the preparation of the instruction to the Permanent Representative in the Budget Committee of the Council.

201. The *Rigsrevisionen* also informs the PAC of the observations of the ECA reports, as well as the proceeds of the Parliament's discharge procedure.

202. All reports of the *Rigsrevisionen* are forwarded to the ECA where they are examined for relevant information. A number of reports of the *Rigsrevisionen* have been translated wholly or partly into French or English by the ECA translation service and distributed to the audit sectors concerned.

7. Staffing And Competence Requirements Related To EU Functions

203. The staff occupied with EU-related matters are primarily auditors, but only in the Second Division is the staff occupied on a full-time basis with EU tasks.

204. The time spent on audit is registered under the audited institutions and can not be separated according to funding, i.e. national or EU funds. It can be mentioned, however, that the Secretariat use about 10 months annually on communication and co-ordination with EU institutions. The time used for Contact Committee meetings is not included.

205. The increase in the number of staff to the required level of eight auditors in the internal audit body in the paying agency has resulted in a reduction of staff in the EU unit in the Second Division. There are at present five auditors, i.e. one auditor and two assistant auditors auditing the paying agency on a full-time basis, and one auditor and one assistant auditor auditing the Danish Directorate for Development on a part-time basis. The head of division devotes a substantial part of his time to EU-related tasks. The staff carry out both financial and performance audits.

206. Besides the general training programme for new staff of the *Rigsrevisionen*, there is no special training programme for staff dealing with EU tasks. Good audit experience and knowledge of the EU system and procedures are important qualifications. It takes a long time for new staff in the unit to get acquainted with the EU system and procedures. The staff usually obtains the knowledge of systems and procedures through learning by doing.

207. It is also very important that the staff understands, speaks and reads English fluently. Many documents are in English and the paying agency has accepted that most meetings with ECA auditors

are to be conducted in English. Training courses in English and French are provided internally and by the Language Training School of the Ministry of Foreign Affairs.

208. Computerisation has also been an area of importance. The *Rigsrevisionen* has computerised a number of internal functions (planning, registrations of tasks completed, internal and external communication, etc.), and audit of computer systems is part of the internal audit programme. In addition, the auditors usually have constant reading access to the systems of the audited body and receive training courses in using these systems. More training in the audit of computer systems is, however, necessary. When an audited institution is implementing a new electronic data processing (edp) system or the division concerned finds there is a specific need it is common to request special assistance from an internal edp-unit. This has been the case in relation to the planning and implementation of the new integrated edp system at the paying agency.

209. The implementation of Commission Regulation No. 1663/95 in the paying agency has required the Certificate to be issued on the basis of statistical sampling methods with certain confidence and error levels. The Second Division already had some experience in these audit techniques but has requested further technical assistance from another division in the *Rigsrevisionen*. More training in this field is required.

210. The *Rigsrevisionen* has organised two visits to the ECA and other EU institutions for staff in EU-related posts in order to learn more about the institutions and their procedures. In the ECA, there is a post for each Member State SAI called the Institution de contrôle nationale (ICN). The so-called ICN-agent functions for mutual exchange of experience between the ECA and the Member State. There are no specific terms of reference for the posts, but most ICN-agents act as audit team leaders. Since accession, the *Rigsrevisionen* has given high priority to filling positions in the ECA as members, cabinet staff and ICN-agents. Today, about ten auditors have obtained experience from a stay of 4-6 years with the ECA. It has proved highly important that key personnel have acquired this thorough knowledge of the ECA.

FINLAND
By Samu Tuominen⁴

4. Samu Tuominen is a special researcher at the State Audit Office of Finland.

1. Chapter Summary

211. The European Court of Auditors (ECA) submitted its reports on the 1995 Community Budget to the Council and the European Parliament on 12 November 1996. On the same day, the State Audit Office of Finland arranged an informational meeting at which the Finnish member of the European Court of Auditors described the results of the audit performed by the Court for the 1995 financial year.

212. This paper was originally published 12 November 1996 by the State Audit Office with the objective of providing information to the participants of the aforementioned meeting about the role of the Office in the affairs relating to the European Union. For the purpose of this SIGMA publication, the original Finnish version was translated into English. Many parts of the original text were updated, modified or deleted; and new parts, as well as explanatory notes and annexes, were added to make the paper more suitable for SIGMA's audience. Understanding the context for which the original paper was prepared is nevertheless essential for the understanding of this paper.

213. Finland's membership in the European Union has had various consequences for the State Audit Office. Finland's contributions to and receipts from the Community Budget have become a new field of audit for the Office. EC legislation has begun to be a factor that needs to be taken into account also in the audits of certain national funds. The Office has adopted the task of the national liaison authority for the European Court of Auditors. This paper deals with these and many other matters concerning the State Audit Office's role and measures it has taken due to EU membership.

2. Audit Remit

214. Under the Finnish Constitution Act (No. 94 of 1919) and the State Audit Act (No. 967 of 1947), the task of the State Audit Office is to audit the legality and appropriateness of the State's financial management as well as compliance with the budget. The Office's audit subjects include the Council of State and its Ministries; State agencies and Offices; State enterprises; State funds outside the State budget; State-subsidised communities, corporations and bodies; joint-stock companies in which the State or the State and a State-owned company together control over half of voting rights conferred by the shares; and private funds in the possession of State authorities⁵.

215. The Office also has the authority to audit all transfers of funds between Finland and the European Community, as well as the control thereof, and, to the degree warranted by audit, the funds, finances and operations of the intermediary, grantor, recipient or payer of any credit transfer, and those of any party to which the recipient of a credit transfer has transferred the funds received. This authority is based on the Act on the Right of the Parliamentary State Auditors (PSA) and the State Audit Office to Audit Certain Credit Transfers between Finland and the European Communities

5. The SAO does not audit the Bank of Finland, National Social Insurance Institute, Postipankki Ltd (a state-owned deposit bank), the funds for which Parliament is responsible, nor the Parliament itself (see Annex 5). Neither does the SAO audit all parts of the State budget all the way down to final beneficiary/remitter. Individuals as recipients of household transfers as well as taxpayers are beyond the SAO's audit powers (except when the question is of transfers of funds between Finland and EC). The SAO has access to all information pertinent to audit in the possession of the authorities, but where the information concerns individuals, it can only be examined for the purpose of auditing the authorities.

(No. 353 of 1995). Attributing to the Act, the Office can examine transfers of funds between Finland and the Community irrespective of whether they are considered as part of State finances or not.⁶

3. Transfers Of Funds

216. The total sum paid from Finland to the European Community was Mk (Finnish markkaa) 5.8 billion in 1995. Finland received Mk 5.9 billion in corresponding income in 1995. In addition to this, an unknown amount in miscellaneous subsidies was transferred to Finland. The Commission grants miscellaneous subsidies for example for research and training directly to beneficiaries past the State budget without informing national authorities. Discounting these, the net benefit was Mk 94 million in 1995. Subsequently, Finland has become a net contributor.

217. Transfers of funds, amounting to some Mk 6 billion going in both directions between Finland and the Community, have become a new field of audit for the State Audit Office along with Finland's membership of the EU. As such, this amounts to some 3 per cent of the total State budget⁷. When the national funding committed to the Structural Funds, the EAGGF-Guarantee Section and the transition period subsidy are added to this, the total sum attained is some Mk 14 billion, i.e. 7 per cent of the total State budget. The Office allows for this figure as one factor when deciding on the proportion of its resources to be used annually for auditing work related to the European Union.

218. As another factor, the Office considers those revenue and expenditure items of the State which do not necessarily have a direct connection with EC financial transfers, but which either have been introduced or amended because of the EU; or for the collection or use of which EU's permission must be secured; or in respect of which procedures determined by or derived from the EU are being applied. Some examples of these include value added tax⁸ (Mk 36.9 billion in 1995), state subsidies to industries and services (Mk 4.6 billion in 1995) and public procurement (Mk 45-50 billion in 1995, also covering local administration expenditure).

6. Act 353/95 has been attached as Annex 1. A chronological description of legislative preparations due to EU accession has been attached as Annex 2.

7. The State budget does not cover the whole audit field of the SAO (see section 2 of this paper). However, as it is difficult to measure the volume of the audit subjects outside the State budget in a comparable way with EC money transfers, the endsum of the budget was chosen as a yardstick.

8. VAT does have a connection with EC financial transfers in a sense that national VAT base determines the amount of VAT own resource payable to the Community. VAT is nevertheless used here as an example of a national budget item which would have been be subject to EU's influence even if such connection did not exist.

TRANSFERS OF FUNDS BETWEEN FINLAND AND EUROPEAN COMMUNITY IN 1995⁷			
(Mio Mk)			
Payments to the European Community	5 812	Income from the European Community	5 906 + x
State Budget			
Budgetary outlay	4 816	Budgetary income	5 499
-VAT-payment	3 027	-Transition period subsidy	2 701
-GNP-payment	1 272	-EAGGF–Guarantee	1 882
-EIB ⁵	484	-ESF	379
-ECSC ¹	34	-EAGGF–Guidance	300
-EURATOM ¹	0	-ERDF	174
-EDF ⁵	-	-FIFG	13
		-Collection fees	87
		-TEN funding ⁴	22
		-Customs, net sum ⁴	3
		-Other income	1
Other Transfers			
Outlays external to budget	995	Income external to budget	407
-Customs charges ²	891	-Intervention fund ³	407
-Agricultural import charges ²	76	-Rural development fund	-
-Sugar charges ³	18	-Miscellaneous subsidies ⁶	x
-ECSC production charges ¹	10		
<i>Sources:</i> 1) Ministry of Trade and Industry; 2) National Board of Customs; 3) Ministry of Agriculture and Forestry; 4) Ministry of Finance; otherwise from State final accounts for 1995.			
<i>Notes:</i> 5) EIB and EDF belong to EU, but not to EC; 6) According to an estimate by MoF, commitments for miscellaneous subsidies were entered into for a sum exceeding Mk 600 Million, but the amount actually paid in 1995 was probably considerable less; 7) SAO has not verified the accuracy and adequacy of these figures by means of auditing.			

4. Principal Features Of The Supervisory System

219. The purpose of supervising public financial management is to ensure its legality and economic appropriateness. Supervision is divided into internal control, external auditing and other external control. The supervision of transfers of funds between Finland and the European Community is carried out by both national and supranational⁹ supervisory bodies. The latter oversee the management of EC funds both at the supranational level and within Finland. The supervisory powers of national bodies are limited to the financial management taking place in Finland and to the national preparation of supranational financial management¹⁰.

9. Supranational supervision refers to supervision which is outside or beyond the authority of one Member State. The word “supra” is not intended to have a connotation of “above” in this context.

10. The concept of financial management covers not only resource administration in narrow terms but also policy preparation and implementation. The Finnish system is to a large extent based on a principle that

220. Internal control is organised through the internal actions of the administration which manages finance. Internal control embodies supervision by the management, internal monitoring and internal auditing. Internal control includes *ex ante* and *ex post* measures. The supranational internal control of funds transferred between Finland and the European Community is performed by the Commission and the administrative authorities subordinate to it. National internal control is implemented by the Council of State and the administrative authorities subordinate to it¹¹. Supranational internal control is co-ordinated by the Directorate-General for Financial Control (DG XX), for which the Ministry of Finance has served as a national liaison authority.

221. External auditing is conducted by a body which is operationally separate from and independent of the administration which is responsible for managing finances — the audit powers of which covers the administration as a whole and the activities of which include the audit of both the legality and appropriateness of the financial management. The national external auditing of transfers of funds between Finland and the European Community is performed by the State Audit Office¹², which submits its audit reports to the Parliamentary State Auditors, the audited administrative units, the ministries which direct these units and the Ministry of Finance. Supranational external auditing is carried out by the European Court of Auditors (ECA), which reports on its audits to the European Parliament and the Council. The national liaison authority for the ECA is the State Audit Office.

222. Other external control of financial management is performed by the system of popular representation, by a supervisory body which may be convened comprising Members of Parliament, by the public authorities which oversee the general legality of public administration, as well as through the contribution of the general public and of taxpayers¹³. The national organs which carry out external control of transfers of funds between Finland and the European Community are the Finnish Parliament¹⁴, the Parliamentary State Auditors¹⁵ and also the Chancellor of Justice of the Council of State¹⁶ and the Parliamentary Ombudsman¹⁷. Supranational external control is done by the European Parliament¹⁸, the Council¹⁹ and the European Ombudsman²⁰. The natural liaison point in Finland for

finance and policy administration are inseparable. The SAO audits policy preparation and implementation from an economic point of view.

11. The Council of State refers to the college of ministers and sometimes also to its ministries with their civil servants. The finance committee of the Council of State and the Ministry of Finance carry out *ex ante* type of financial control mainly on matters of significant economic interest. These include certain matters related to the EU. Other internal controls operate on a decentralised basis. The management of each State office and agency is responsible for the organising of internal controls. There is no centralised internal control organisation in Finland with direct powers to conduct *ex post* investigations, but each superior administrative authority has a general obligation to supervise the financial management of the administration subordinate to it. EU accession has not affected the fundamental regulatory framework of internal control so far. An investigator appointed by the MoF is investigating the matter, however.
12. Notes 12-21 have been attached as Annex 3.
13. See Annex 3.
14. See Annex 3.
15. See Annex 3.
16. See Annex 3.
17. See Annex 3.
18. See Annex 3.

the Budgetary Control Committee of the European Parliament is the Parliamentary State Auditors²¹. The Ministry of Finance participates in the work of the Council in matters falling within its competence.

5. Liaison Between Supreme Audit Institutions

223. The State Audit Office liaises with the European Court of Auditors and the Supreme Audit Institutions of the other Member States of the European Union. Liaison between National Audit Institutions and the European Court of Auditors is based on Article 188c.3 of the Treaty Establishing the European Community and on the corresponding provisions of the treaties establishing the European Coal and Steel Community and the European Atomic Energy Community. This liaison arises between independent Supreme Audit Institutions, and is practised on an equal footing. When performing its audits relating to Finland, the ECA liaises with the State Audit Office (SAO). The role of the SAO in audits performed by the ECA is discussed in Part 6.

224. The liaison between the Supreme Audit Institutions of the Member States is based on their mutual interest in ensuring the legality and appropriateness of the financial management of the Union. The National Audit Institutions already liaised within the framework of the European Communities even before the European Court of Auditors was established. In the European Union, the liaison between the National Audit Institutions may also cover such funding arrangements for operating expenditure related to the common foreign and security policy and to co-operation in the fields of justice and home affairs, which do not fall within the competence of the European Court of Auditors²². A Contact Committee of the Heads of the Supreme Audit Institutions serves as the supreme organ of mutual liaison between the National Audit Institutions.

225. The ECA was invited to become a member of the Contact Committee in 1979, and so in practice it also serves as an organ of liaison between the National Audit Institutions and the European Court of Auditors. Meetings of the Contact Committee are prepared at meetings of Liaison Officers nominated by the National Audit Institutions and the ECA as well as at working groups set up by the Contact Committee itself.

226. So far, the State Audit Office has participated in four Contact Committee meetings and five Liaison Officer meetings. In addition, the SAO has participated in a few EU auditing seminars convened by other National Audit Institutions and it has been involved in bilateral visits on European Union business with six National Audit Institutions and the European Court of Auditors²³. The issues which have been discussed in liaison between the Supreme Audit Institutions of the European Union

19. See Annex 3.

20. See Annex 3.

21. See Annex 3.

22. The SAO is not aware of whether such collaboration between NAIs has ever taken place in practice in the context of EU. As far as SAO knows, an analogous example has materialised in the context of NATO (Eurofighter-audit), however.

23. The SAO's policy is to assess the true need for any bilateral visit very carefully and limit their content on essential business in order to avoid overburdening other organisations and causing unnecessary expenses.

and the measures taken by the State Audit Office as a result of these discussions are explained in Part 7.

6. Contacts With The Commission

227. For practical purposes, the State Audit Office also maintains contacts with the European Commission. So far, these contacts have mainly been pursued because of the efforts of the SAO to systematise the receipt of information important for the proper auditing of transfers of funds between Finland and the European Community. The SAO has negotiated with the Commission in order to get information from it regularly concerning accounting operations affecting Finland as well as notifications of audit visits and audit reports from the various Directorates General of the Commission and from UCLAF.

228. The State Audit Office calls for equivalent access as the European Court of Auditors has to information on accounting operations concerning Finland from the Commission's database SINCOM. The assimilation principle led from Article 5 and the first paragraph of Article 209a of the EC Treaty (and confirmed in the case law of the European Court of Justice), together with the Act of 353/95, place a general obligation on the SAO to audit transfers of funds between Finland and EC to the same extent as the SAO audits national funds, but in practice the SAO is unable to do that with respect to all EC transfers since the Commission does not inform national authorities of the recipients of the miscellaneous subsidies that the Commission grants past the State budget.

229. As regards SAO's request concerning the Commission's notifications of audit visits and audit reports, the SAO wishes to be able to assess the adequacy of supranational internal audit in a compatible manner as it assesses the adequacy of national internal audit and to co-ordinate the SAO's audit activities at its own initiative with the Commission services in a compatible manner as the SAO co-ordinates its audit activities at its own initiative with national internal audit and the ECA. (The SAO takes their audit plans and reports into account when planning its own activities.)

230. To address these issues, the State Audit Office approached DG XX on 23 July 1996. Commissioners Liikanen and Gradin, ECA, DG IX and the Ministry of Finance were informed of the letter. In its replies of 19 November 1996 and 19 December 1996, the DG XX advised the SAO that national audit bodies should address their request for access to information from SINCOM to the ECA and that DG XX has no objection to the ECA providing a monthly statement of accounting operations to the SAO. According to DG XX, the ECA is analysing the procedure and will inform DG XX of the results of this analysis as soon as it is completed. As regards notification of audit visits and the transmission of audit reports by Commission services and by Financial Control, DG XX has no objection, provided that the ECA communicates its agreement, to sending the SAO a copy of the programme of control and inspections visits to Finland planned by the Commission services and to sending copies of the control reports addressed to the Finnish national authorities.

231. What is more, the State Audit Office has participated in a few meetings organised by the Commission. During the first year of membership, the Ministry of Finance gave the SAO an opportunity to observe the proceedings of the Advisory Committee on Fraud Prevention and the meeting of the Financial Controllers of the European Union. In 1996, the SAO participated in a seminar on Structural Funds chaired by the Financial Controller of the Commission in Helsinki.

7. Participation In Audit Visits

232. When performing its audit missions to Finland, the European Court of Auditors liaises with the State Audit Office. Each month, the ECA sends the SAO a schedule of its audit missions to Finland for the following four months. The SAO is notified of individual audit missions in greater detail six weeks in advance. The SAO always has the right to participate in audit missions to be performed by the ECA in Finland. The current practice is, and has been, that the SAO appoints an observer²⁴ for the audit mission, who notifies the auditee thereof. The detailed programme is agreed between the auditee and the ECA. Audit visits have generally lasted just under one week. The officials of the auditee have the right to use their native language. The auditee must submit to the ECA all of the information necessary to complete the audit, irrespective of the form in which such information is kept.

233. The State Audit Office has participated as an observer in eleven audits concerning Finland performed by the European Court of Auditors as follows: own resources based on GNP (19-21 September 95); establishment, recording and concentration methods for customs and agricultural advances, collection, recording and concentration methods for net VAT income and the calculation methods for the basis of determining VAT (9-12 October 95); the fisheries and dairy product sectors (11-13 October 95); ERDF (8-9 January 96); customs duties and agricultural levies (1-4 April 96); ESF (9-12 April 96); expenditure of the EAGGF–Guarantee Section (24-28 June 96); ERDF aid for SME’s (16-19 December 96); EAGGF–Guarantee (17-21 March 97); customs duties and agricultural levies (5-7 March 97); ESF (23-25 April 97)²⁵.

234. Some two months after the audit mission has occurred, the rapporteur Member of the European Court of Auditors who is responsible for the auditing sector in question sends a so-called sector letter to the State Audit Office containing the preliminary findings of the audit. The SAO forwards this letter to the auditee. There is generally a period of two months allowed for a response. The national administration sends its rejoinder to the SAO, which forwards it to the European Court of Auditors together with any of its own observations which it may wish to append thereto. The ECA utilises the sector letters and rejoinders submitted thereto in the preparation of its audit reports. The rejoinders submitted by the Member States are also given consideration in the meetings between the European Court of Auditors and the European Commission at which the draft reports of the former are discussed. These meetings are referred to as the “contradictory procedure”.

235. Once the final text has been agreed by the Members of the European Court of Auditors the audit reports together with the Commission’s replies are submitted to the European Parliament and the Council to be taken into account in the discharge procedure. The ECA’s reports and the Commission’s replies are also published in the Official Journal of the European Union. In addition to publishing the reports in the Official Journal, the ECA sends them to its national counterparts for information. The State Audit Office has assumed a practice according to which it forwards the Finnish version of any special report sent by the ECA, with the exception of that in support of Statement of Assurance (SOA, but here referred to as DAS the French abbreviation in order not to confuse the reader with SAO, the Finnish State Audit Office), to relevant national authorities for

24. SAO’s policy to observe all audit missions by ECA at least for the first few years provides SAO an opportunity to get familiar with ECA’s working methods and to pick up ideas for SAO’s own audit work. SAO also feels it is responsible for ensuring that ECA gets started with its audit work concerning Finland as smoothly as possible.

25. Chapter 8 provides information on the volume of SAO’s audit work concerning EC-funds in Finland.

information. This is done despite the fact that the reports are also published in the Official Journal. As regards the ECA's annual report and the special report in support of DAS, the Office has considered this practice unnecessary, since the administrative authorities have the Official Journal at their disposal and are likely to pay attention to these reports anyway. The Ministry of Finance has adopted a policy of asking administrative authorities to submit their comments on the annual report and the DAS report to the MoF within a month after their publication. The MoF utilises the comments in preparing the Government's stand on the reports. The Government representatives may express the stand at the Council during the discharge procedure.

8. The Business Of Liaison Meetings

236. The meetings of the Supreme Audit Institutions of the European Union have dealt with procedures governing liaison between National Audit Institutions and the European Court of Auditors; joint audits by NAIs and the Court; co-ordinated or parallel audits by two or more SAIs; auditing guidelines for the European Communities; certification of the accounts of the EAGGF-Guarantee Section; supervision of public procurement; Articles 92 and 93 of the Treaty Establishing the European Community; the conditions for collection and auditing of value added tax in intra-Community trade; the Statement of Assurance (SOA or in French DAS); proposals made to the Intergovernmental Conference for the amendment of provisions on the ECA; co-ordination of audit visits; verification of the application of the Maastricht parameters regarding public deficit and public debt; introduction of the euro; and co-operation with the NAIs of "third" or non-EU countries.

8.1. Liaison Procedures

237. The procedures for liaison between the National Audit Institutions and the European Court of Auditors have been on the agenda since 1978. Since Finland acceded to the European Union, the State Audit Office has also discussed the procedures to be followed in relation to Finland on a bilateral basis with the ECA. There has been no particular problems of a bilateral nature. In November 1996, the Contact Committee set up a working group to prepare a proposal for a decision-in-principle on liaison procedures. Besides examining procedures for audit missions, the working group's specific tasks include examining any problems arising from co-operation between the NAIs and the ECA (including those relating to DAS), as well as the possibilities for making use of the audit findings of the respective audit partner, discussing the role of the ICN officials appointed on the nomination of the NAIs by the Court to serve there for two years at a time, enhancing co-ordination of audit visits, and enhancing procedures for the presentation of the annual report of the ECA.

8.2. Joint Audits

238. Joint audits by the National Audit Institutions and the European Court of Auditors have been on the agenda since 1978. In the early 1990s, the SAI's of eight Member States carried out joint audits with the ECA. These audits concerned measures for restructuring Community fishing fleets, aid for investment in the processing and marketing of fishery and aquaculture products, common organisation of the market in pigmeat, and VAT in intraCommunity trade. Referring to experiences gained in the joint audits, the 1995 meeting of the Contact Committee proposed that the joint audits should be extended to cover other sectors, such as the Structural Funds, environmental policy, aid to non-Member States and the calculation of GNP. The meeting asked the Liaison Officers to compile a draft multi-annual programme for joint audits. As a result of this request the National Audit

Institutions and the ECA exchanged their audit programmes and, at the meetings of Liaison Officers, discussed the prospects for finding areas upon which the conduct of joint audits would bring better results than those available from audits which are done by one authority only. In November 1996, the Contact Committee invited the working party that had been set up to examine liaison procedures to include joint audits among the subjects that it was to consider in future. The State Audit Office has not conducted joint audits with the ECA so far.

8.3. *Co-Ordinated And Parallel Audits*

239. Audits carried out by two or more Supreme Audit Institutions in a co-ordinated or parallel manner have, as with the joint audits, been on the agenda from the beginning. Co-ordinated and parallel audits signify less intensive forms of liaison than joint audits which are performed together under joint management and with a view to producing a joint audit report. Co-ordinated audits are conducted by two or more Audit Institutions on the same subject, using the same methodology and at the same time, but in different places and with independent reporting practices. Parallel audits are performed simultaneously on the same kind of subject but there are no formal arrangements to co-ordinate the audit methodologies. The State Audit Office has been involved in a co-ordinated audit on the international exchange of information relating to direct taxation in the Member States of the European Union since 1995. The SAO has also taken part in discussions on the prospects for launching parallel performance audits in the area of the Common Agricultural Policy (CAP). Subsequently, the SAO launched a performance audit on CAP.

8.4. *Auditing Guidelines*

240. The auditing guidelines for the European Communities have been on the agenda since 1980. In 1991, the Contact Committee set up a working group with the task of preparing common guidelines for use in audits of European Communities activities based on the standards used by INTOSAI, the International Organisation of Supreme Audit Institutions. The working group has prepared ten draft standards: Audit Planning, Audit Evidence and Approach, Evaluation of Internal Control and Compliance Testing, Documentation, Quality Assurance, Materiality and Risk, Audit Sampling, Reporting, Irregularities and Using the Work of Other Auditors and Experts. Five more draft standards are still under preparation. The ten draft guidelines which have been prepared are being evaluated in the State Audit Office. Their operability will be separately assessed from the points of view of both performance audit and financial audit. The SAO intends to make use of the results of this evaluation in its own instructions and to provide feedback on the draft standards to the joint working group on standards.

8.5. *Certifying Body*

241. Auditing of the EAGGF–Guarantee Section has been on the agenda since 1980. Information on the organisation of the tasks of the certifying body for the EAGGF–Guarantee in each Member State has been exchanged at the meetings since 1995. There are provisions governing the certifying body in Article 3 of Commission Regulation (EC) No. 1663/95 issuing detailed provisions for the application of Council Regulation (EEC) No. 729/70. The Commission has interpreted its Regulation to mean that the internal audit unit of the body serving as a paying agency of EAGGF payments should not ordinarily serve as a certifying body. This interpretation by the Commission is based on the view that those Member States in which the system of internal control has been arranged on a

decentralised basis must either establish a centralised organ of internal audit, purchase the service in question from a private auditing firm or ask the national external audit institution to take charge of the matter.

242. The Netherlands, Denmark and with certain reservations also Germany and Austria appear to have defended an interpretation which better allows for the differences between national administrative systems, taking that they have arranged the certification of accounts for the EAGGF financial year running from 16 October 1995 to 15 October 1996 on the foundation of internal audit of the bodies serving as Paying Agencies of EAGGF payments. The other Member States would, instead, have seemed to have accepted the interpretation of the Commission. Finland, Belgium and Ireland have appointed a private auditing firm to perform the task; the United Kingdom has chosen the National Audit Office after competitive tendering; Spain, Luxemburg and Portugal have a centralised body for internal control; Sweden has appointed its National Audit Office; France has set up an *ad hoc* certification board chaired by a former member of the French Court of Auditors. The situation is still unclear (for the State Audit Office) with regard to Italy and Greece.

243. The Ministry of Agriculture and Forestry asked the State Audit Office on 15 May 1995 whether it would be willing to act as a certifying body. The office replied the Ministry on 2 June 1995 that taking the information available it would not be willing. The reasoning behind the refusal was simply as follows: the certifying body is an instrument of the Commission to execute the general Budget of the EC. The duties of the certifying body are therefore internal control by nature. As a National Audit Institution on an equal basis with the European Court of Auditors, the State Audit Office needs to be able to audit the certifying body externally in a similar manner as the ECA is able to, and the SAO cannot subject itself to audits by the ECA nor its principal auditee, the Commission. Moreover, the SAO wondered whether the EU institutions' interpretation concerning Article 3 of the Commission Regulation 1663/95 is fully in line with the Member States' organisational autonomy.

244. In its letter of 2 June 1995, the State Audit Office proposed to the Ministry of Agriculture that the clearest solution to the problem of organising the tasks of the certifying body for the EAGGF-Guarantee would be to reinforce the internal audit organisation of the Ministry and to organise it in such a manner that the Commission can approve it as a certifying body. The Ministry, however, preferred to start with a private auditing firm. The organisation of certification of accounts for the EAGGF-Guarantee may yet prove to be a decision of principle for the entire national supervisory system if the plans of the Commission are realised in respect of extending the scope of the principles to be observed in the procedure for clearance of the accounts of the EAGGF-Guarantee Section so as to include the Structural Funds and traditional own resources.

8.6. Public Procurement

245. Supervision of public procurement has been on the agenda since 1991. In November 1996, the Contact Committee set up a working group to review the transposition of Community Directives on public procurement into national law and to evaluate the role and the controlling methods of the Supreme Auditing Institutions in this field. The State Audit Office participates in the work of the working group. The SAO has nominated a person to be responsible whose task is to take part in the working group and to follow questions regarding public procurement. Public procurement may be given attention in some of the SAO's ongoing financial audits. The SAO has also started a performance audit on public procurement in the field of public health care. The need for further audit

work will be assessed on the basis of the audit work and information gathered in the follow-up²⁶ as well as along with progress in the work of the working group.

8.7. *Articles 92 And 93 Of The EC-Treaty*

246. Articles 92 and 93 of the Treaty Establishing the European Community have been on the agenda since 1992. These Articles define the limits and licensing procedures according to which the public administration of the Member States may grant aid to certain undertakings or branches of production. A working group set up by the Contact Committee is currently examining the role of the Supreme Audit Institutions in the verification of notification procedures for State aid, the standstill-procedure and correct execution of an aid measure after approval by the Commission. The working group has issued two interim reports and its final report is due to be completed in 1997. In January 1996 the State Audit Office set up its own working group consisting of two heads of audit to investigate the organisation within the SAO of auditing and expert activities related to Articles 92 and 93 of the EC Treaty. On the basis of the report of the working group (resources used: 5-10 employee days), the SAO nominated an audit group to monitor issues arising in this area. The need for national audit measures was assessed on the basis of the information gathered in this follow-up. Subsequently the SAO launched a performance audit on the topic.

8.8. *VAT In Intra-Community Trade*

247. The conditions for collecting and auditing value added tax in intra-Community trade have been on the agenda since 1993. A working group set up by the Contact Committee is presently examining co-operation between Member States to prevent VAT fraud in intra-Community trade. The working group has issued two interim reports: "VAT controls in intra-Community trade" and "The operation of transitional arrangements and the transition to the definitive arrangements applicable to VAT on trade between Member States". The final report of the working group is due to be completed in 1997. In January 1996 the State Audit Office set up its own working group consisting of two heads of audit to examine the organisation within the SAO of auditing and expert activities related to VAT on intra-Community trade. On the basis of the report of the working group (resources used: 2-3 employee days), the SAO nominated an audit group to monitor issues arising in this area. Subsequently the SAO has launched a performance audit on VAT. The main concern of the audit is not on intra-Community trade, but the audit may touch on problems related to it. The need for further audit measures will be assessed on the basis of the audit and information gathered in the follow-up.

26. The SAO monitors administration with the help of its full personnel to ensure proper choice of performance audit topic ideas for the annual audit plan. As the follow-up areas are wide and resources used for their monitoring somewhat limited (two weeks/year/performance auditor), a feasibility study is carried out on most topics after they have been included in the audit plan. The purpose of the feasibility study is to establish whether the initial impression of the need for audit was correct or not. If the initial impression proves to be incorrect, the topic is either dropped or handled in an other manner (e.g. by making an initiative to administrative authorities) than conducting a full audit. This is to avoid wasteful use of resources.

8.9. Statement Of Assurance

248. The Statement of Assurance (DAS) has been on the agenda since 1993. The European Court of Auditors provides the European Parliament and the Council with an annual Statement of Assurance as to the reliability of the accounts (the consolidated revenue and expenditure account and balance sheet) and the legality and regularity of the underlying transactions. These underlying transactions are audited with the help of statistical sampling methods. As most of the Community Budget is administered at the level of the Member States, the audit trail of the sampled transactions often leads to the Member States. It follows from this that many of the European Court of Auditors' audit visits related to the underlying transactions are carried out in the Member States. In order to reduce the number of audit missions to the Member States without jeopardising the reliability of the Statement of Assurance, the ECA seeks to be able to make use of the audit results of the National Audit Institutions when compiling its Statement of Assurance.

249. The Statement of Assurance team of the European Court of Auditors has visited the National Audit Institution of each of the Member States in order to identify any legal, methodological or practical limitations to co-operation and possible forms of concrete co-operation. The ECA has announced its willingness to launch bilateral pilot projects for co-operation with those National Audit Institutions which wish to do so on a timetable which would enable the utilisation of audit results in the Statement of Assurance for the 1997 financial year.

250. The State Audit Office prepares itself for possible concretisation of collaboration with respect to the Statement of Assurance, e.g. by assessing the draft guidelines for use in audits of EC activities, studying the ECA's working methods and outcome of its work, monitoring the response DAS receives in the Community and in other Member States and following the developments in the co-operation between the ECA and other NAIs as regards to DAS. The concretisation of collaboration depends on the outcome of possible further negotiations between the SAO and the ECA.

8.10. The Inter-governmental Conference

251. Proposals to the Inter-governmental Conference for amendments to the regulations governing the European Court of Auditors have been on the agenda since 1995. In a report submitted in May 1995 to the Intergovernmental Conference Reflection Group, the ECA proposed, *inter alia*, that it should be given the power to appeal directly to the European Court of Justice in case of any infringement of its rights and prerogatives. Following a discussion at the Contact Committee, the ECA clarified its original proposal to the Presidium of the Council so that the ECA's right to resort to the Court of Justice is to be restricted to legal action against Community bodies or national agencies entrusted with the management Community funds.

252. In a letter dated 23 May 1996, the National Audit Institutions of the Member States also expressed their view on point No. 122 of the memorandum of the Intergovernmental Conference Reflection Group and to the point No. 22.3 of the Resolution approved by the European Parliament on 13 March 1996, according to which the National Audit Institutions should be obliged expressly to collaborate with the European Court of Auditors notably in connection with the Statement of Assurance. In the view of the former, responsibility for the Statement of Assurance rests with the European Court of Auditors and the participation of the National Audit Institutions can most appropriately be on a voluntary basis. At the proposal of the President of the ECA, the opinion of the National Audit Institutions was brought to the attention of the President of the Council, the

Chairperson of the Budgetary Control Committee of the European Parliament and the Commissioner responsible for the budget affairs²⁷.

8.11. Co-Ordination Of Audit Visits

253. The co-ordination of audit missions came onto the agenda in 1996. In 1995 the ECA made 243 audit missions to the Member States. Corresponding visits by the Commission numbered 492, i.e. about twice as many. Over the years the Member States have criticised the ECA and the Commission for not adequately co-ordinating their missions. Because of this the institutions in question have announced that they will begin to co-ordinate their audit programmes. The current planning periods of about four months would be replaced by annual planning. After preliminary plans have been drawn up (in August) co-ordination meetings would be arranged (from September to November), after which the plans would be amended and confirmed (from November to December). In addition to this the exchange of audit reports would be sharpened, auditing methodologies would be made more coherent and care would be taken to establish appropriate data for clear audit trail all the way down to final beneficiary level.

254. An effort has also been made to involve the bodies responsible for co-ordinating national internal control in the co-ordination project launched on the initiative of the Commission, i.e. the Ministries of Finance in the northern Member States and the centralised internal control units in those of the South. The Commission project does not affect the National Audit Institutions as such²⁸. The State Audit Office is nevertheless prepared to take the audit mission plans and reports of the Commission into account when planning its own activities in the same way as it does with respect to the plans and reports of the European Court of Auditors and those of national internal control. The SAO has also submitted its annual work programme to the ECA.

8.12. Other Business

255. Verification of the application of the Maastricht parameters regarding public deficit and public debt came onto agenda in 1996. Implications of the introduction of the euro for NAIs as well as co-operation with NAIs of the third countries have come onto agenda in 1997. The Contact

27. Since these communications the SAO has naturally tried to be kept informed of the developments in the IGC and on its own behalf to inform the Ministry of Finance where appropriate.

28. In some SEM 2000/3 documents and draft protocols the Commission had included national equivalents of the ECA among those whose participation is being desired in the establishment of a joint annual audit programme by national and supranational audit services. Point P of the resolution regarding SEM approved by the European Parliament on 15 November 1996 seems to be along the same lines with the Commission's aforementioned wish. The SAO recognises the need to enhance the co-ordination of all audit visits concerning EC-funds and appreciates the efforts of the Community institutions to this end. However, as the idea of the establishment of a joint annual programme between all internal and external audit bodies of the Community and of a Member State is, according to the conception of the SAO, problematical from both institutional and practical points of view, the SAO is, at least for the time being, in favour of carrying measures of co-ordination at its own initiative rather than striving for taking part in the joint planning exercise. As far as the conditions for self-co-ordination of the SAO's own activities in regard to other audit services are concerned, the SAO regards the lack of systematic flow of information from the Commission to SAO concerning the Commission's audit visits and the results of those visits as a problem. For the actions taken by the SAO to tackle this problem see Chapter 5.

Committee has not adopted any resolutions regarding these matters yet. The State Audit Office holds that the matters in question need to be studied and discussed further until useful information can be provided.

9. Own Audit Activities

9.1. *The Principle Of Equivalent Audit*

256. The State Audit Office audits transfers of funds between Finland and the European Communities to the same extent and according to same principles and procedures as national funds. Due to Article 5 and the first paragraph of Article 209 a of the EC Treaty, the Member States have an obligation to protect the financial interests of the Community with the same efficiency as they protect their own financial interests. It is in the common interest of the Member States to exercise proper supervision of Community funds.

257. The State Audit Office audits also the national preparation and implementation of the decision-making of the European Union in the same way as it audits the preparation and implementation of national decision-making. At the Council and in the committees and working groups of the Commission, the Member States participate in the preparation of the legislation relating to the financial management and financial control of the Community, funding decisions for programmes, the general budget of the Community and other such decisions which have consequences for the national budget. The Member States are responsible for the national implementation of Community law and the proper application of Community law in practice. Failure to comply with obligations may result in a liability for damages to individuals or sanctions imposed by the Community institutions.

9.2. *Financial Audit*

258. The financial audit by the State Audit Office is annual and covers every accounting office of the State. The financial audit examines the legality of financial management and compliance with the budget; the propriety of internal control; the reliability of book-keeping and other accounting; the correctness of the final accounts of the agencies and thus also of those of the State; and the accuracy and adequacy of the result information presented in annual reports. A financial audit takes an average of some 45 employee days.

259. At the level of an individual accounting office, the financial audit is focused on matters which are essential and risky in every subsector of financial auditing. Certain actions required by EU stand a change of being risky if neglecting them may result in liability for damages; reduction, suspension or cancellation of assistance; reimbursements; or other sanctions imposed by the EU at the expense of the national budget. A sense of proportion needs to be maintained in providing for these risks, however.

260. Two-thirds of the roughly one hundred accounting offices of the State had entries concerning EC-funds in their accounts in 1995. These were audited using the same procedures and on the same principles as domestic funds. When information is produced in financial audits concerning the state of the book-keeping and other accounting and of the final accounts and internal control in each accounting office as well as on compliance with the main statutes concerning the budget and its

application, and a contribution is made to eliminating possible errors and deficiencies, the benefit which is thereby achieved affects not only the management of national funds but also and equally the management of EC-funds.

261. The observations, conclusions and recommendations made in the annual audits for the 1995 financial year have been brought to the attention of the national authorities and the Parliamentary State Auditors. The administration has not yet been able to meet all of the demands imposed by the European Union even though some positive development has been observed. The State Audit Office has emphasised the contribution of the management of each accounting office in rectifying the situation.

262. The State Audit Office has about 70 financial audits under preparation concerning accounting offices which administered EC funds during the 1996 financial year. The SAO will send the reports issued on the basis of its audits to the national authorities and to the Parliamentary State Auditors in Spring 1997.

9.3. *Performance Audit*

263. The performance audit by the State Audit Office is of a once-off character and applies either to domains encompassing several actors; activities permeating the administration; a limited task performed by a certain administrative sector, authority or recipient of State aid; State funds outside the State budget; State enterprises; or joint-stock companies in which the State or the State and the State-owned company together control over half of the voting rights conferred by the shares. The performance audit examines the economy, efficiency and effectiveness of the management of tasks as well as possible unexpected effects; the reliability and adequacy of external information regarding results, the accuracy of the grounds used in setting objectives; the operability of control, follow-up and evaluation systems; the legality of management of tasks and conformity with objectives; and compliance with the budget. A performance audit takes an average of some 230 employee days including 10-60 days for the feasibility study.

264. Performance audit topics are selected on the basis of materiality and risk over the entire domain of the State finances. Proposals for topics concerning revenue and expenditure falling within the sphere of influence of the EU are subject to the same consideration as other proposals²⁹.

265. EU-related topics stand a chance of being selected not only due to the previously mentioned risks, but also because it may not yet have crystallised to spending authorities that the money to finance payments from the EC Budget has been collected from Finnish citizens and entities as taxes and charges. Neither the principle of additionality nor the complex system built to administer EC funds is likely to encourage economical behaviour among spending authorities. The Community

29. The SAO's strives for focusing performance audits on risky areas which are of considerable direct or indirect economic significance. In order to ensure the proper choice of subjects, the SAO maintains contacts with key interest groups involved in the direction and control of state finances and monitors administrative activities with the help of its full personnel. Suggestions for new performance audit topics come from audit staff and senior management. Financial auditors are expected to raise value for money issues identified from their work. Performance audit staff review their audit files and follow-up areas and prepare papers with suggestions. Some 200 ideas are produced annually, of which around 10-15 per cent are approved and reach feasibility study stage (quotation from the publication "State audit and accountability," UK NAO, 1996).

supervision services on their part may have a tendency to regard the Community goals as largely given and pay most attention to procedures and correctness of operations rather than making the basis for goal-setting, value for money aspects and the possible unexpected effects of Community interventions their central object of interest.

266. So far the SAO has included a total of 20 EU-related performance audit topics into the audit plan. Eleven of these have concerned or touched EC funds and nine national funds subject to EU's influence. Topics with EU connection have been audited according to same principles and procedures as topics without EU connection.

267. Three performance audits concerning or touching EC funds have been brought to conclusion so far: the State budget project (Audit Report No. 2/97); the preparation, funding and execution of Structural Fund Objective 6 programme in Finland (Audit Report No. 5/97); and the use of regional development funds (Publication of the financial audit unit). Four audits on national funds subject to EU's indirect influence have been concluded: the consideration of EU affairs in the Finnish national administration (Audit Report No. 8/96); the subsidising of training for entrepreneurs in small and medium-sized enterprises during the economic recession (Audit Report No. 7/96); excise duty (Audit Report No. 14/96); and control of foodstuffs (Audit Report No. 3/97). The observations, conclusions and recommendations made in the concluded seven audits have been brought to the attention of the national authorities and the Parliamentary State Auditors.

268. There are eight performance audits under preparation which concern or touch EC funds: the use of ERDF and national funds in the promotion of employment with respect to objectives 6 and 2; the study No. II on the condition of State subsidy systems; granting, monitoring and controlling of aid from regional development funds; monitoring of projects funded by different administrative authorities especially in northern Finland; Common Agriculture Policy; the implementation and operability of European Social Fund programme Objective 3; information transmission system of Structural Fund payments; and support measures for fisheries.

269. There are five performance audits pending which concern national funds subject to EU's influence: co-ordinated audit on the international exchange of information relating to direct taxation in the Member States of the EU; the planning and funding systems for road building; State aid subject to Articles 92 and 93 of the EC Treaty; public contracts in the field of public health care; and the operability of expenditure and revenue clause for VAT.

10. Fraud Prevention

270. One of the purposes of the activities of the State Audit Office is to forestall fraud in the management of State finances. The prevention of fraud is primarily effected by the financial audit. Continual attention is also given in performance audits to how prone the management and subsidy systems are to fraud and to how the authorities have acted to prevent and investigate them. On the other hand the prevention, exposure and investigation of individual cases of fraud are not the business of the SAO. These matters are the responsibility of the administrative authorities, the police and other preliminary investigation authorities.

271. From time to time individual cases of fraud come to light during the audits of the State Audit Office. The initiatives and petitions³⁰ made to the SAO also often contain claims of unlawful activities by civil servants. The SAO notifies the concerned State authority, institution, enterprise or general supervisory authority of malpractice which become apparent in its audits. If the party so informed takes no action in the matter and the matter concerns a criminal offence, then the SAO takes measures to have charges brought against those who are guilty of fraud. The SAO also checks that the audited party takes measures to compensate the State for any damage which it may have suffered. The SAO has a special unit with the task of investigating petitions and assisting in the investigation of the malpractice which are observed during audits.

272. The Member States of the European Union have an obligation to inform the Commission of all irregularities which arise in the use of EU funds. The administrative authorities of Finland notified the Commission of 14 cases in 1995. Twelve of these concerned traditional own resources. These were chiefly erroneous customs declarations. Two other notifications concerned expenditures of the Guarantee Section of the EAGGF. Errors were noticed in the subsidy applications of two farmers. No subsidies were paid in error and so there was no need to institute any recovery measures. Frauds relating to transit have come to light in 1996 to the value of about Mk 15 million³¹.

273. A new Section 18a (No. 733 of 1996) has been appended to the State Audit Decree, according to which the State Audit Office must be notified of any malpractice observed in the funds administered by a State Authority or institution without delay. This provision entered into force on 1 November 1996.

274. A similar kind of provision had in fact been repealed from the State Audit Decree in 1990. The SAO had proposed the provision to be removed from the State Audit Decree and included in a more general type of statute, Budget Act or Budget Decree for instance. The mere provision in an unknown organisational statute had never really led to automatism of notification practices and the State Audit Act provides the SAO with general powers to request the authorities to submit any information pertinent to audit to the SAO anyway. On the other hand, it was seen that a visible provision would be better in the long run than no provision at all. Nevertheless, only the first part of the SAO's proposal was ever implemented.

275. Therefore in 1996 the SAO suggested the provision to be put back to the State Audit Decree until a right time comes to transfer the provision into a more general type of statute. The SAO not only wanted to keep the idea of an automatic notification procedure alive, but regarded that the provision, even in the State Audit Decree, would provide additional back-up in accustoming the authorities to notify the SAO of the same irregularities as they are under obligation to notify the Commission. Moreover, along with the campaign against Community fraud, the SAO had started to receive constant inquiries from the press regarding possible malpractice in State finances and thought that the provision, if supplemented with relevant directions, could be of some help in providing for these inquiries.

30. Petition is a written request for investigation, bearing the name of a petitioner, addressed to the SAO. Anybody can make a petition. There is no prescribed time set before which a petition must be made. SAO receives some 50 petitions a year. A petition document is public. A petition does not always lead to an investigation, but SAO is required to reply to a petition. (See also footnote 13 listed in Annex 3.)

31. Transit fraud refers to e.g. smuggling of cigarettes. As far as figures on irregularities communicated officially by Finland in 1996 are concerned, the readers are referred to Commission's annual report 1996 on the fight against fraud.

276. The SAO issued more precise directions on the matter in 11 March 1997. The SAO should be notified of potential criminal offences related to State subsidies granted by the state authority or institution; potential criminal offences related to state employees where their offence concerns funds or property administered by the authority or institution; and all the irregularities the authority is required to notify the Commission. A notification is expected to comprise a short description of the case, an estimate of the damages, and an account of the measures the authority has taken or is going to take owing to the malpractice. The authorities are required to draft the notifications so that the individuals concerned cannot be recognised. Due to the Personal Data File Act (No. 471 of 1987) the SAO is not allowed to register the names nor the social security numbers of the individuals involved.

277. Even if the notification provision was included in a more general type of statute, there would still be a need to complement it with more precise directions on a relatively regular basis. The authorities have to be reminded of the provision as it does not necessarily become applicable that often; the reach of the obligation necessitates adjusting in order to keep the number of notifications under control; and it is also difficult to predict what kind of malpractice the SAO wants to be notified of in the future.

11. Organisation, Resources And Training

278. Finland's membership in the European Union has not significantly affected the organisation of the State Audit Office. Organisation consists of the Auditor General, two performance audit units, the financial audit unit, the internal services unit and the special unit. The SAO has a quota of 124 posts of which 120 have been filled. Performance audit has 62 posts, financial audit 43, Auditor General and internal services 14, special unit 1. An organisational chart has been attached as Annex 4.

279. The head of the internal services unit (head of planning) acts as the EU Liaison Officer. One official has been assigned to assist the Liaison Officer. Both have also several other than EU-related duties in the SAO. The unit acts as a contact point for the ECA; the National Audit Institutions, and in practice also for the Ministry of Finance; prepares liaison matters; draws up miscellaneous statements, letters and memorandums on EU business; and provides EU-related advice, training and information services to the whole organisation. Auditors are responsible for acquiring the material they need for a specific audit, however. Audit units inform the administration about the ECA's audit visits; participate in the visits as observers; take part in preparing the liaison matters; and conduct all audit work related to EC funds and to national funds subject to EU's influence.

280. Roughly 10 per cent of the operations of the State Audit Office relate notably to the European Union. These include liaison activities as well as audits on transfers of funds between Finland and EC, audits on national funds connected with EC transfers, and audits on national funds subject to EU's influence through legislation. As some of the EC legislation has replaced national legislation and some of the EC payments have replaced national payments, additional costs incurred make less than 10 per cent of the SAO's operational costs or Mk 2-4 million (5 to 10 person-years). The numbers should be treated as indicative, because they are not based on cost-accounting. The SAO's cost accounting system has not been designed to separate costs incurred to the SAO due to Finland's membership in the EU.

281. The State Audit Office expects its auditors to have an understanding of the European Union and its development plans, awareness of EU's effects on each auditors area of responsibility, and knowledge of regulations and practices concerning the financial management and control of money

transfers between Finland and EC. For these ends the SAO has provided written material and arranged a few in-house information briefings. The staff has also been given a chance to take part in various training courses provided by different training institutions. A course on EU law has been relatively popular. In addition the SAO has organised study visits for auditors to the Community institutions. Moreover, the SAO has in-house English and French study groups (1.5 hours/week during the winter). The latter was established due to Finland joining EU.

**Annex 1. Act On The Right Of The Parliamentary State Auditors And The State Audit Office
To Audit Certain Credit Transfers Between Finland And The European Communities**

(17 March 1995/353)

Section 1

Scope of application

282. This Act applies to credit transfers between Finland and the European Communities and to the controlling and auditing of the use thereof. In this Act *credit transfers* mean the payment or account liabilities or other commitments of the State, municipalities, federations of municipalities, Finnish societies, societies operating in Finland, parishes and other societies, foundations, institutions, enterprises and individuals towards the European Communities, as well as the subsidies, loans, other financing, securities, exemptions or other forms of subsidy directed to Finland from the resources of the European Communities.

283. The reference in Paragraph 1 to a recipient of a credit transfer from the European Communities shall mean also an intermediary and a person to whom the recipient has transferred the resources in question.

Section 2

Competence

284. The Parliamentary State Auditors and the State Audit Office shall have the right to audit the credit transfers referred to in Section 1 and the use and controlling thereof, as well as, to the extent required for auditing, the finances and operations of an intermediary, the grantor, the recipient and the payer of a credit transfer or a person to whom the recipient has transferred the resources he has received.

285. The Parliamentary State Auditors and the State Audit Office shall have the right to audit the credit transfers referred to in Section 1 in the quarters of the recipients and those liable for payment; those audited shall assist the auditor in his task. The Parliamentary State Auditors and the State Audit Office may make use of expert advisors in the audit.

Section 3

Access to information

286. Without prejudice to separate provisions on the confidentiality of matters and documents, those audited shall without undue delay provide the Parliamentary State Auditors and the State Audit Office with the requested information, accounts, documents and records necessary for the audit.

287. The Parliamentary State Auditors and the State Audit Office shall have access to all information, documents, other records and copies in the possession of the regular auditors of those audited, where they are necessary for the audit, as well as copies of the memos, minutes and other documents concerning the operations of those audited and drafted by the regular auditor.

288. The authorities of the State, federations of municipalities, municipalities, and parishes shall give the Parliamentary State Auditors and the State Audit Office the official assistance necessary for the access and the right of audit referred to in this Act, as well as provide them with the information, documents and other records and accounts concerning those audited and necessary for the audit.

Section 4

Confidentiality

289. A Parliamentary State Auditor, a member of the staff of the Office of the Parliamentary State Auditors or the State Audit Office and an expert referred to in Section 2, Paragraph 2 shall not use for his own benefit nor disclose any information, gained in the line of duty, on the economic situation, business or professional secret or personal circumstances of another, or any information specifically ordered to be kept confidential.

290. Without prejudice to Paragraph 1, information and documents may be provided to:

1. the police or other authorities conducting preliminary investigations, the customs authorities, the public prosecutors and the courts of law, for the investigation of an offence; and
2. the institutions of the European Communities and other competent authorities, where required by Community law.

Section 5

Relationship to other legislation

291. The provisions in other Acts on the Parliamentary State Auditors and the State Audit Office shall otherwise apply to monitoring and auditing activities referred to in this Act.

Section 6

Entry into force

292. This Act enters into force as provided by Decree (on 1 April 1995).

293. Measures required for the implementation of this Act may be undertaken prior to its entry into force.

Annex 2. SAO Audit Mandate: Legislative Preparations Due To EU Accession

294. A chronological description of the developments relating to the extension of SAO's audit mandate and to the question of whether SAO's position as the national liaison body for ECA should have been regulated at the level of an Act or not

- June 1993. National Integration Committee (NIC) recommends MoF to start preparing its part of the Council of State's proposal for an Act on EU accession (1540/94)³².
- September 1993. MoF asks SAO to become involved in the preparations as far as Articles 188a-188c of the EC-Treaty are concerned.
- November 1993. The budget section of the NIC sets up a working group to examine arrangements for budgeting and financial management of transfers of funds between Finland and EC. The group conducts preliminary examinations on the effects of the EU accession on the state audit function. The question of which of the external control bodies in Finland, PSA or SAO, should act as of a national liaison body for the ECA, arises. According to draft memorandums prepared for the group SAO should assume the obligations of the liaison body. The possible needs to regulate the matter in the Act on EU accession (1540/94) and to extend SAO's audit mandate by revising the State Audit Act (967/47) are also discussed in the draft documents.
- May 1994. PSA asks MoF for information of the preparations regarding the effects of EU accession on supervision of State finances. MoF informs PSA that in the view of the aforementioned working group SAO should act as a national liaison body for ECA.
- May 1994. SAO sets up a working group to prepare a thorough examination of the effects of the EU accession on SAO. The working group's task is to present an estimate of the quantitative and qualitative effects of the EU accession on all working units of SAO and to assess the possible need to revise the State Audit Act (967/47) to ensure that SAO can in all circumstances act as national liaison body for ECA. The time set for the EU working group is until the end of October 1994.
- July 1994. SAO becomes under the impression that the legislative technique chosen for the Council of State's proposal for the Act on EU accession (1540/94) is not going to enable regulating SAO's role as a national liaison body for ECA. SAO receives a signal that it may not be necessary to regulate the matter at level of an Act after all. The Parliament should nevertheless be informed that SAO shall act as a counterpart for ECA and be provided with a fair explanation.
- August 1994. The Council of State's proposal for an Act on EU accession (1540/94) is submitted to Parliament. The proposed Act does not contain references to the matter in question, but the explanations of the proposal hold that as PSA's constitutional task is to oversee State finances and SAO's corresponding task is to audit them, SAO is the national audit body referred to in Article 188c.3 of the EC-Treaty and shall therefore act as a liaison body with ECA.

32. Act on the Acceptance of Certain Regulations of the Treaty on Finland's Accession to the European Union, 8 December 1994. No. 1540/94 refers to the Act, not to the Council of State's proposal.

- September 1994. By this time SAO's EU working group has come to adopt a stand that the assimilation principle led from Article 5 and the first paragraph of Article 209 a of the EC-Treaty (and confirmed in the case law of the European Court of Justice) places an obligation, although a very general one, on SAO to provide the same protection to EC-funds as to national funds. For this reason and because of the need to ensure that SAO can in all circumstances act as a national liaison body for ECA, SAO concludes that all transfers of funds between Finland and EC must become subject to SAO's audit powers irrespective of whether the funds are considered as part of State finances or not. Due to a tight schedule set by the Parliament for the proposals for Acts relating to the EU accession, SAO separates the question of extending SAO's audit mandate from the work of the EU working group. For practical reasons SAO chooses to draft a separate Act (353/95)³³ instead of revising the State Audit Act (967/47). As the permanent secretary of the working group is to carry out the preparations under the direction of AG, the time set for the working group is extended until November 1994.
- October 1994. SAO submits its proposal for an Act of 353/95 to MoF after discussing it with PSA (SAO had drafted corresponding audit powers for PSA as for SAO in regard to EC-funds in order to maintain balance between the institutions). MoF submits the proposal to other Ministries for comments.
- October 1994. Parliament's finance committee issues an opinion on the Council of State's proposal for the Act on EU accession (1540/94). The opinion does not contain comments on the explanations of the proposal according to which the SAO shall act as the national liaison body for ECA.
- November 1994. SAO's EU working group gives its final report to AG³⁴. The report is sent to accounting offices for information.
- December 1994. The Act on EU accession (1540/94) is adopted by Parliament.
- December 1994. The Council of State's proposal for the Act of 353/95, finalised by MoF, is submitted to Parliament. As in the case of the proposal for the Act of 1540/94 the explanations of the proposal for the Act of 353/95 hold that as PSA's constitutional task is to oversee State finances and SAO's corresponding task is to audit them, SAO is the national audit body referred to in Article 188c.3 of the EC-Treaty and shall therefore act as a liaison body with ECA.
- February 1995. Parliament's Finance Committee issues its opinion on the Council of State's proposal for the Act of 353/95. The Committee deems it improper that it is being tried to settle the question of the national liaison body for ECA in the explanations of the proposal. The Committee holds that should it really be wanted that SAO acts as the first hand national liaison body for ECA and in practice the only one, the matter should be decided in the Act of 353/95. The Committee nevertheless states that PSA is going to act as a national co-operation body for the BCC of the European Parliament.
- March 1995. The Parliament adopts the Act of 353/95.

33. Act on the Right of the Parliamentary State Auditors and the State Audit Office to Audit certain Credit Transfers between Finland and the European Communities. March 17, 1995. No. 353/95 refers to the Act, not to the Council of State's proposal.

34. SAO used altogether 246 employee days for the work of the working group and for preparing the Acts of 353/95 and 1540/94.

Annex 3. Notes 12-21

295. (12) SAO is functionally independent of the executive, but administratively subordinate to the Council of State and its Ministry of Finance. At the same time these are auditees of SAO due to its Constitutional audit task. SAO is safeguarded from outside interference with regard to its audit functions and to appointing its staff. President of the republic appoints the Auditor General. He nominates all the other officials. SAO decides its annual programme independently and sets its own performance goals. Neither the Government nor the Parliament, which determines SAO's budget, have the authority to alter the goals set by SAO in the budget process. SAO has complete autonomy in planning, carrying out and reporting its audit work. SAO has a right of access to all governmental documents and records protected with a threat of a fine.

296. (13) Citizens and taxpayers do not have a direct supervisory role, but they may express their concerns regarding the legality and appropriateness of the State's financial management indirectly by making administrative petitions to supervising authorities (see also footnote 30). It is not possible to change the decision directly through this procedure, but it may lead, if there is reason, to initiating disciplinary or criminal proceedings against the responsible civil servant as well as to the initiation of an annulment procedure. Citizens and taxpayers may naturally provide feedback to MP's and authorities also in a less organised way, personally or through mass media. Although SAO recognises citizens and taxpayers as having their own kind of indirect role in the supervision of public funds, SAO has traditionally been of the opinion that the State's administrative systems should be designed in a way that does not encourage citizens to supervise each other. Supervision of public funds is a task of public authorities.

297. (14) Parliament exercises the control in question mainly via PSA, to less extent via legality controllers and in a way also via SAO (PSA's report contains, in addition to material based on PSA's own work and on that of the administrative authorities subject to PSA's supervision, a list of SAO's audits and references to the content of some of them). On the basis of PSA's report, which Parliament considers together with a report of the Council of State on the condition of State finances, Parliament takes a stand as to how the State budget has been complied with and State finances managed and as to the motions warranted thereby. Parliament's decision is submitted to the Council of State together with PSA's report. The Council of State in turn has to present a report to Parliament on the measures it has undertaken on the basis of the decision of the Parliament. Although the Council of State as well as its individual ministers are responsible to Parliament for the lawfulness and appropriateness of their official acts, in a legal sense Parliament does not grant discharge to the Council of State for implementation of the State budget.

298. Parliament has also a role in controlling national preparation of supranational financial management (on the concept of financial management see footnote 10). The Prime Minister is required to inform Parliament or the competent committee on matters that have been discussed at the meetings of the European Council. The Council of State is required to send the Speaker any proposal which has come to its notice for an act, agreement or other measure to be decided by the Council of the EU and which otherwise would fall under the competence of the Parliament. The proposal is submitted for consideration by the Grand Committee and generally by one or more specialised committees which shall deliver an opinion of it. The committees are informed of the stage of consideration of the matter in the EU and of the position of the Council of State in the matter. In addition to aforementioned communications the Grand Committee shall, on request and otherwise when circumstances warrant, receive an account from the Council of State concerning the preparation of matters in the EU. The Council of State has sent to the Grand Committee e.g. ECA's annual report together with ECA's special report in support of the Statement of Assurance for the financial year 1995. The Grand Committee submitted the matter to the Finance Committee, which handled ECA's reports and decided that they do not give cause for further action on part of the committee.

299. (15) Parliament elects five Parliamentary State Auditors among its members for a period of four years. They are assisted by an office of 14 civil servants. (The SAO has 124). The PSA's constitutional task is on behalf of the Parliament to *oversee* State finances and supervise compliance with the budget. (The SAO's corresponding task is to *audit* State finances and compliance with the budget). PSA conducts a number of inspection visits annually. It also sends an annual questionnaire to Ministries and finances research projects. PSA is required to submit its annual report to Parliament by the end of the year following the fiscal year subject to supervision. It is typically their only report although separate reports have not been ruled out. For the PSA's supervisory powers as to money flows between Finland and EC see the attached Act of 353/95.

300. (16) The Chancellor of Justice supervises public authorities in their observance of law and fulfilment of their duties in such way that no person's legal rights are violated. The Chancellor's emphasis is on *ex ante* supervision on the Council of State and on *ex post* supervision on other authorities and civil servants. Occasionally the Chancellor touches questions related to State's financial management. Chancellor submits an annual report to the President and to Parliament. Chancellor is assisted by an office of some 30 civil servants.

301. (17) The Parliamentary Ombudsman oversees authorities as well as civil servants, public employees and other persons performing public duties in order to ensure that they comply with the law and fulfil their obligations. The Ombudsman's emphasis is on *ex post* supervision on authorities and civil servants. Occasionally the Ombudsman touches questions related to State's financial management. Ombudsman submits an annual report to Parliament. Ombudsman is assisted by an office of some 30 civil servants.

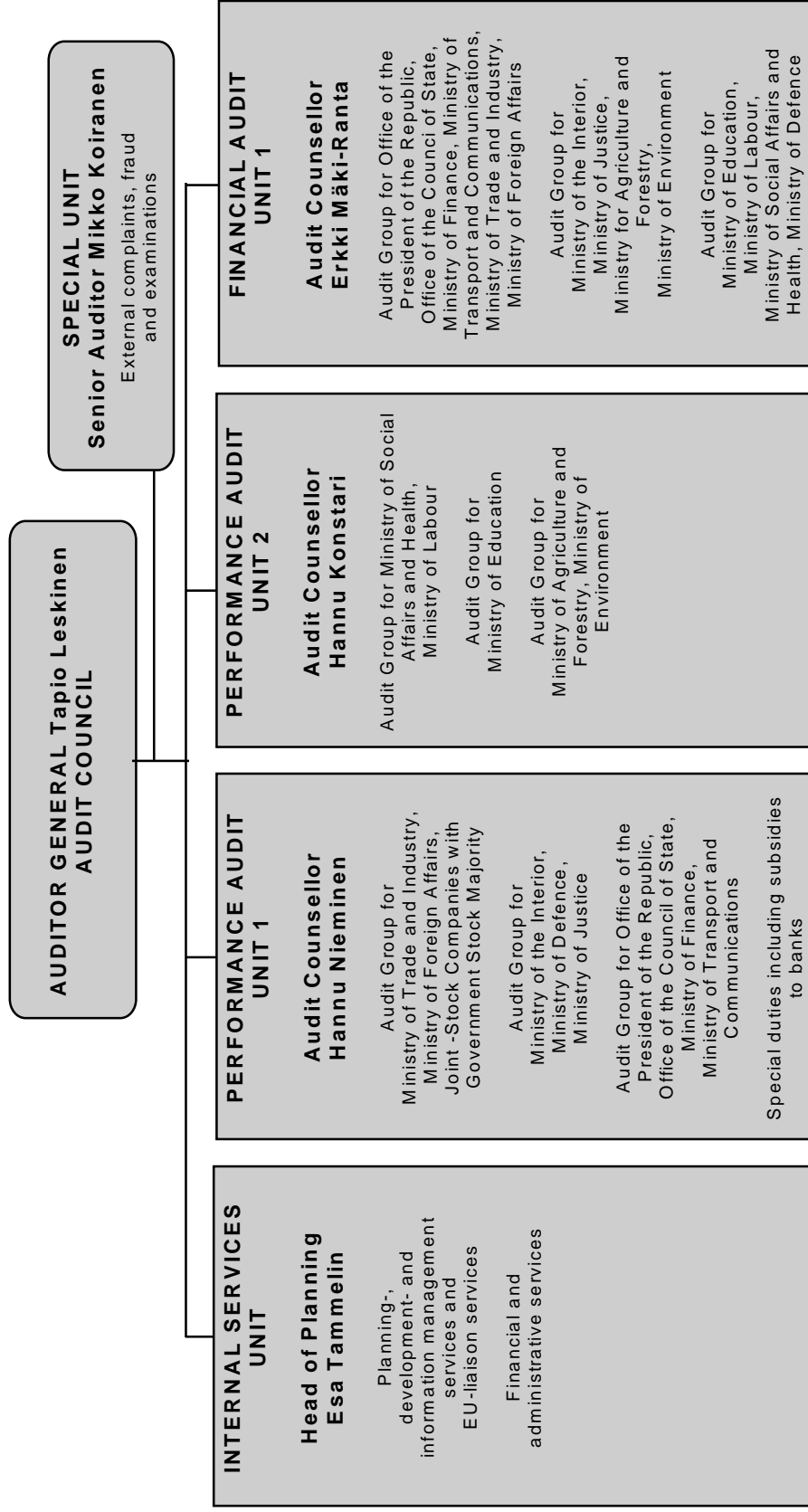
302. (18) European Parliament exercises indirect supervision on Member States via the Commission and ECA. In addition Article 138c of the EC-Treaty provides EP with power to set up investigations which may concern also authorities of the Member States. See also the Decision of the EP, the Council and the Commission of 6 March 1995 on the detailed provisions governing the exercise of the EP's right of inquiry.

303. (19) In the Council the Member States supervise each other indirectly via the Commission and the ECA. In addition the officials of Member States have a possibility to participate as observers in on-the-spot checks and inspections carried out in other Member States by the Commission in order to protect the Communities' financial interests against fraud and other irregularities. The participation is subject to agreement of the Member State concerned. See Article 6 (2) of the Council Regulation 2185/96.

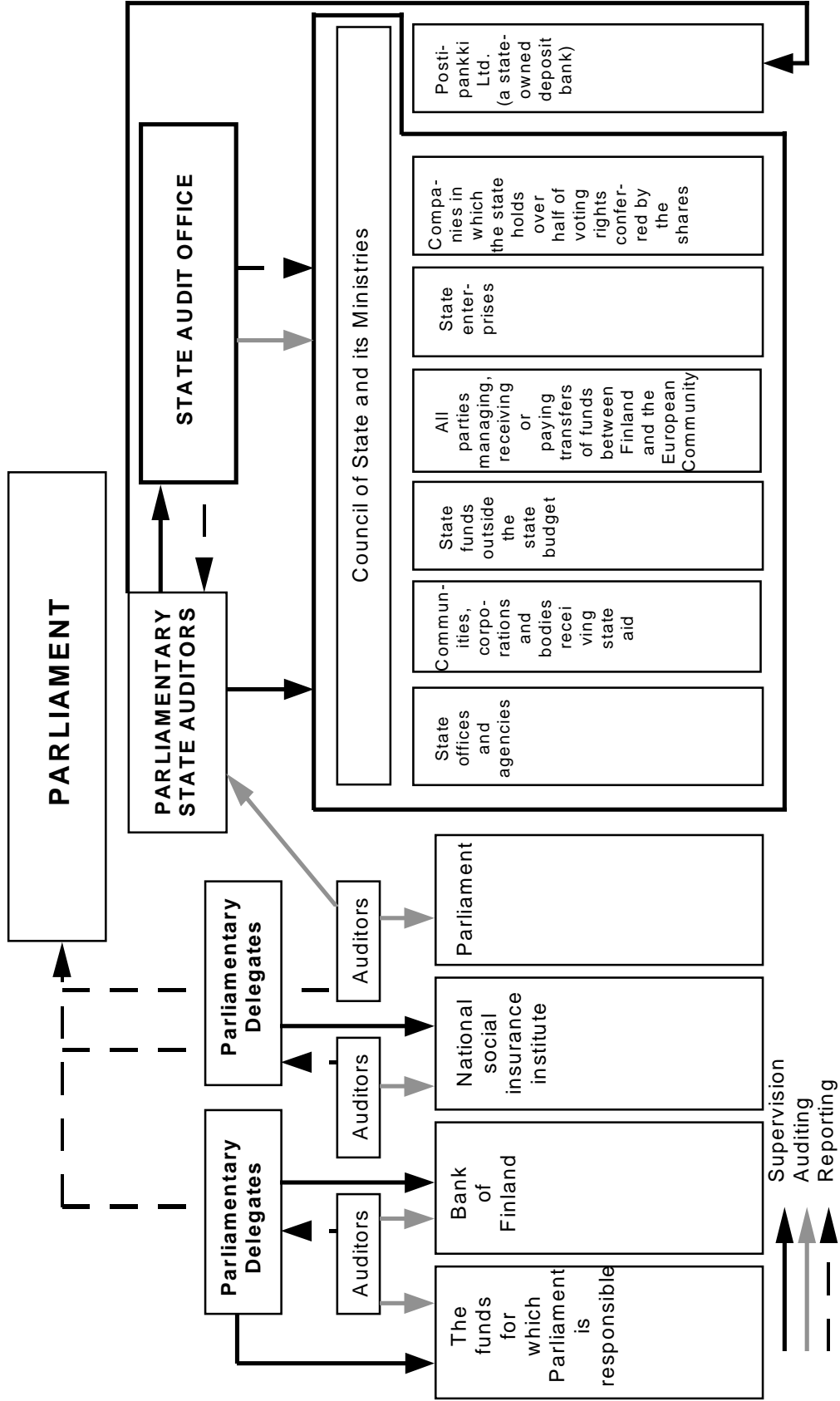
304. (20) European Ombudsman's supervisory role does not extend to Member States, but Ombudsman may request a Member State to forward documents he needs in carrying out his task of supervising Community institutions.

305. (21) Alternatively the administration and audit section of the Parliament's Finance Committee could have assumed a role as a liaison point for the BCC. However, the Finance Committee issued a statement in 1995 (HE 342/1994 vp.) according to which the PSA shall act as a liaison point for the BCC. Perhaps the Committee's stand was partly motivated by the fact that it has or at least used to have a limited amount of civil servants available for assistance in comparison with the PSA. So far the liaison between PSA and BCC has not materialised, although some initial contacts have been taken. PSA can nevertheless be compared with BCC in many respects: both may conduct ad hoc investigations (as to BCC's investigative powers see Article 138c of the EC-Treaty); both receive audit reports from SAI; both have based part of their own reports on reports made by SAI (although nowadays most of the PSA's annual report rests on PSA's own work and on that of the administrative authorities subject to PSA's supervision); both appear to be striving for maintaining an image of objectivity (as opposed to assuming a purely political role); both are organs of Parliament rather than authorities subordinate to it; and both suffer from a relatively low status among parliamentarians, as matters related to *ex post* control of State finances often do.

Annex 4. Organisation And Division Of Tasks In The Finnish State Audit Office



Annex 5. The System Of External Supervision Of State Finances



FRANCE
By Benoît Chevauchez³⁵

35. Benoît Cheavauchez (I.E.P Paris - E.N.A) has primairly made his career within the French Ministry of Finance (Budget Directorate). Today he is an administrator within the SIGMA programme.

1. Chapter Summary

306. The following document complements the French chapter about budgeting in SIGMA Paper No. 19 *Effects of European Union Accession—Part I, Budgeting and Financial Control*. That chapter describes the French organisation and procedures for the management of cash-flow and budgetary relations between the European Union and the national public finances.

307. Although this paper can be understood without a previous reading of the French budgeting chapter, which describes in detail general structures and French administration and budget, it would be useful to read that paper before this one. The chapter on French budgeting deals with Community funds passing through the French administrative and budgetary structures. It does not deal with the expenditures, generally described by the term “internal policies” (which represent about ECU 4 billion — and about one fifth for France) which are mainly used for research and directly managed by the Commission.

308. The main French control structures and procedures must be explained before describing the French control system of Community funds.

2. The French Control System

309. In France, the control of State public finance has the same standards as those of local government public finance.

2.1. *The State*

310. There is a main distinction between the commitment officer and the accountant:

- The commitment officer is the minister responsible for the expenditure, or a civil servant from the ministry with certain powers delegated to him by the minister. Responsible for the implementation of the budget voted by the Parliament, the officer has the power of committing credits by signing all decisions which are likely to create a State debt on behalf of a third party: recruitment of an associate, buying of supplies, grant for an organisation, building of public utilities, etc.
- The accountant is a civil servant of the Finance Ministry. At the request of the commitment officer, he pays the creditor of the State once the services are completed or the goods delivered. The accountant is the only one who is authorised to handle the public funds which are kept and managed within the unique account of the Public Treasury.

311. After the description of the main characteristics of the French system, the control system is described according to the logical and chronological processing of an expenditure.

312. The first control is the financial control of the expenditure commitment by the organiser. Under the supervision of the Budget Department of the Ministry of Finance, it is exercised at central level by Financial Controllers — one in each ministry responsible for the expenditure — and at the local level, by the expenditure commitment by a secondary commitment officer, who is an associate of the Chief Treasurer and Paymaster. This regulatory control is exercised by stamping the incurring document certifying the availability of the necessary credit for the later payment of the expenditure.

313. In public bodies like the Offices of Agricultural Intervention, a more flexible and more extensive financial control is exercised by a State Controller appointed by the Ministry of Finance.

314. At the time of the payment, the accountant who receives the payment order sent by the organiser checks other aspects of the expenditure regulations: implementation of services, delivery of goods, the exact amount of debt and identity of the creditor. If the accountant permits an irregular expenditure, he is personally financially responsible; for that reason every accountant is required to be insured.

315. With respect to these main principles of implementation and *ex ante* control of public expenditure, two practical elements have to be underlined to understand the concrete implementation of this system.

316. Because of implementation thresholds and control globalisation, a large proportion of daily expenditures are not examined individually by the Financial Controller. Moreover, the extensive computerisation of procedures for budget implementation simplify controls by avoiding particularly excessive delays and deadlines.

317. So this *ex ante* control system is overall satisfying and well received by the relevant services.

318. The *ex post* audit can be internal and external.

319. Each Ministry has an internal inspection service responsible for timely checking or general audits and attached directly to the Minister. The inspections are carried out according to the Minister's instructions according to a programme suggested by them. Therefore these inspection services are sanctioned by the authority of the Minister, which gives them authority and prestige for the efficiency of their missions.

320. Like his/her colleagues, the Minister of Finance has an internal control service: the Inspectorate General of Finance (Inspection Générale des Finances). Its control is exercised at a secondary stage because each of its financial services has its own service of internal control:

- Treasury Inspection (Inspection du Trésor) within the Public Accounting Directorate (Direction de la Comptabilité Publique), with 56 000 agents for accounting and treasury management, payments, collections, etc.
- Tax Inspection (Inspection des Impôts) within the Taxes Directorate General (Direction Générale des Impôts) for tax base, collection and control of direct taxes and European VAT.
- Services Inspection (Inspection des Services) within the Customs and Excises Directorate General (Direction Générale des Douanes et des Droits Indirects) for customs, extraCommunity VAT, excises.

321. So, of these three organisations the Inspection of Finance (Inspection Générale des Finances) has the co-ordinating and supervisory role and can make direct and unexpected spot checks or checks based on documents. It is also responsible for study reports and proposals concerning the internal functioning and missions of the Ministry, or any matters belonging to its jurisdiction fields.

322. The external control is exercised by the Audit Office (Cour des Comptes) which has first a jurisdictional function towards the public accountants. Every year the State accounts and their relevant documents are inspected directly or indirectly by the Audit Office. At the end of a joint procedure and a collegial judgement, the Audit Office gives a final discharge to the accountant or, where there are

irregularities, orders the accountant to reimburse the Public Treasury (Trésor Public) the disputed sum. This judgement may be appealed to the Council of State (Conseil d'Etat), the highest administrative Court.

323. The Audit Office has a second role, this time towards the commitment officers. According to its own programme, it regularly carries out management audits — value for money — of the quality of budget management in the ministries responsible for expenditures and of the efficiency of expenditures they make. The audit conclusions are transmitted to ministers who answer criticisms and review proposals. Every year the Audit Office makes the most important criticisms or proposals public. This public report is well covered in the press and is widely used by the Parliament. However these reports have no legal consequences. The commitment officers are considered as ordinary delegates of ministers, for whom they draw up the budgets. The responsibility of the minister can be questioned only through political procedures. However, the Court of Budgetary and Financial Discipline (Cour de Discipline Budgétaire et Financière) which is formed of the Conseil d'Etat and the Cour des Comptes is authorised to penalise the organisers for serious irregularities. But in practice this institution is not efficient and the sanctions it delivers are infrequent and derisory.

2.2. The Local Government

324. The control methods of local government expenditure are largely inspired by those prevailing for the State.

325. The same distinction exists between the commitment officer — i.e. the mayor or one of his associates for a commune — and the accountant who is always a State civil servant from the Public Accounting Department (Direction de la Comptabilité Publique) within the Ministry of Finance (Ministry of Finance).

326. There is no control for expenditure committed at local government level.

327. The expenditure payment is made by the accountant with the same restrictions as for the State.

328. Although the local communities are free to conduct internal inspections, only the main ones conduct them.

329. The *ex post* external control is exercised by the Audit Regional Chambers (Chambres Régionales des Comptes), which similar powers to those of the Cour des Comptes.

330. The control methods for Community funds were largely based on practices. They are very pragmatic methods founded on French administrative traditions which have been gradually adapted to the evolving requirements of Community Institutions.

331. The control of income, agricultural expenditure and Structural Funds will be studied in the following paragraphs.

3. The Control Of Own Resources

332. The control of internal resources is exercised mainly under the supervision of the Customs and Excises Directorate (General DGDDI.). About 40 per cent of the total staff — 19 000 agents — are likely to participate directly or indirectly in the collection of traditional internal resources. But as a financial amount, the sums concerned represent only a small part (3 per cent) of the total income collected by the

General Department of Customs and Indirect Taxes. The abolishment of frontiers in 1993 brought *a posteriori* controls exercised in France on goods already cleared at the non-French boundaries within the European Union. In accordance with Article 18 of the 1989 Community Regulation, national control is provided by the Finance Inspectorate General of the General Department of Customs and Indirect Taxes. Moreover, the Commission can implement controls on its own controls and apply them to the organisations mentioned above.

333. The efficiency of this system seems satisfactory. Every year 180 000 detailed controls on imports are carried out, to which must be added permanent controls for sugar contributions and *a posteriori* control for enterprises. The techniques of “risk analysis” are widely used in these controls.

334. The customs duties collected in 1993 by the French Customs represent 12 per cent of the total sum collected by the European Union. During the same year, the Commission put a duty on 150 significant businesses for a total amount representing more than 1 per cent of the duties collected in France. In 1994 the control of internal resources resulted in the collection of about 500 MF.

335. The expenditure control is more complex. On the one hand there is the EAGGF-Guarantee, an old control considering the corresponding sums — about FF 55 billion in 1993 — and the importance of agriculture for France — 700 000 farms. On the other hand there are the Structural Funds, with less significant income — FF 15 billion, a control system for which was developed recently.

4. The Control Of Agricultural Expenditure

336. The EAGGF-Guarantee control must adapt itself to the Common Agricultural Policy (Politique Agricole Commune), which reduces assistance to the product of the assistance, to the producer. By nature, these two expenditure categories have a very different control system.

337. There are three different levels for product assistance:

- The “concomitant” controls — based on documents — are exercised by the 250 agents of the Agricultural Offices (Offices Agricoles). Their action is co-ordinated and reinforced by about 30 inspectors of the Central Agency of Intervention Organisations in the Agricultural Sector (Agence Centrale des Organismes d’Intervention dans le Secteur Agricole — ACOFA). In some sectors and for some types of assistance, they are reinforced by State services, particularly the Customs and Excises Directorate General for repayments — which received particular attention in the last years — as well as for some products such as wine, fruit and vegetables. The Competition, Consumption and Fraud Repression Directorate General (Direction Générale de la Concurrence, de la Consommation et de la Répression des Fraudes — DGCCRF) within the Ministry of Finance — 4 500 agents — has particular responsibility for quality control and the security of main consumer goods, and for using technical means such as laboratories, measuring apparatus, etc. for wine, fruit and vegetables.
- The *a posteriori* audit in the enterprises, planned by Community Regulations, are distributed among three organisations: the DGDDI, the ACOFA and the DGCCRF. In 1994 about 1 200 enterprises were audited, 440 by the Main Department of Customs and Indirect Taxes, 700 by the ACOFA, and the rest by the DGCCRF. 15 per cent of the enterprises were obliged to make repayments, but only a small fraction of these irregularities were important. These results seem quite stable over a long period of time.
- At the top of this organisation is the Co-ordinating Commission of Community Controls (Commission de Coordination des Contrôles Communautaires — CICC) created in 1981.

Chaired by a Inspector General of Finance (Inspecteur Général des Finances), it includes representatives of the Inspectorate General of Agriculture (Inspection Générale de l'Agriculture); the Ministry of Agriculture (Ministère de l'Agriculture), the Ministry of Budget (Ministère du Budget); the State Controller of Agricultural Offices (Contrôleur d'Etat des Offices Agricoles); and more recently a magistrate of the Audit Office (Cour des Comptes and a representative of the Ministry of Justice (Ministère de la Justice). All of them meet quarterly, and their board meets once a month, to:

- set the audit programmes in enterprises — about 1 100 audits in 1995;
- divide the tasks between the three relevant audit services; and
- examine the implementation difficulties and strengthen the audit tools and methods by training, databases and reports.

338. The secretariat of the CICC is set up by the ACOFA, the offices of which monitor the necessary steps to take against beneficiaries of irregular payments. These offices are entirely responsible for their tasks and the CICC has only an advisory role. The President of the Commission also chairs the Board of ACOFA.

339. There are several specific sub-commissions:

- one sub-commission for the wine-producing sector;
- one sub-commission called the sub-commission of “intentionality”, recently created at the request of the European Union Commission to penalise “*restitution*” to operators which are above the set repayments. In these cases the magistrate of the Audit Office (Cour des Comptes) and the representative of the Ministry of Justice (Ministère de la Justice) share responsibility for appraising the intentionality of the contravenor at fault.

340. For assistance to the producer, there are also three points:

- During the preliminary investigation of the assistance request, either by the relevant office or by the territorial services of the Ministry of Agriculture (Ministère de l'Agriculture), the relevant civil servants ask for spot controls on the spot at about 10 per cent of the dossiers. In the cereals and oilseeds sector, which is the main one, the offices employ 800 controllers, which means 1 controller for 70 farms. The sanction rate is quite big, over 10 per cent.
- The penalising rate is smaller — 4 per cent — for the assistance in the animal sector, mainly because of lack of staff. This assistance is older and administered by the Local Agricultural Departments (Directions Départementales de l'Agriculture), which are the territorial services of the Ministry of Agriculture (Ministère de l'Agriculture).
- The introduction of an Integrated Management and Control System (Système Intégré de Gestion et de Contrôle) prescribed by the 1992 Community Regulations introduced important changes to these direct assistance controls, the implementation of which is not finished yet.

5. The Control Of Structural Funds

341. The Structural Funds was developed on the basis of experience gained from the expenditure control of the Common Agricultural Policy.

342. Following the reforms introduced by the 1993 Regulations, a commission named Structural Funds of the Co-ordination Commission of Community Controls (CICC-Fonds Structurels) was created in

France. Made up of three sections — one per fund — this commission is also chaired by a General Finance Inspector (Inspecteur Général des Finances) and its secretariat is set up the Integrated Management and Control System (Système Intégré de Gestion et de Contrôle). The Co-ordination Commission of Community Controls (Commission de Coordination des Contrôles Communautaires — CICC) co-signed with the DG XX the Protocol planned by the Community regulations, which specify that the European Union Commission can delegate its powers to a national organisation which acts in its name and on its behalf.

343. For the ERDF, the control is in fact part of the actual process of expenditure management. After having checked the procedures implementation of French Budgetary Law, the monitoring unit linked to the Regional Prefect (Préfet de Région) examines the payments requested from the Commission and sends them only if all the criteria are met. Thus the action of the Commission is focused on a few system audits which permit security controls of the conditions of fund granting at the level of the Regional Prefect.

344. The ESF is managed through a delegation of the Regional Prefect by the territorial services of the Ministry of Labour (Ministère du Travail). It has particular problems linked to the very nature of the distributed assistance. The European credits represent only a small part — 10 per cent — of the vocational training credits in France — around FF 50 billion. Moreover, they are not only transferred to regions, which are conversant with this sector, but also often used by “associations” (ruled by the 1901 Law), which have superficial accounting management structures. So these funds are not under the direct control of the State. The audits are exercised by the National Group of Control (Groupe National de Contrôle) — with about 100 controllers for about 120 detailed checks per year — under the supervision of the Structural Funds of the Co-ordination Commission of Community Controls (CICC-Fonds Structurels).

345. The EAGGF-Guidance give assistance of various kinds. Assistance for the development of rural areas (Objectives 1 and 5b) follow the same procedures as those for ERDF assistance. Other forms of assistance, essentially assistance to young farmers, are managed in the same way as the direct assistance given by the FEOGA-Guarantee. Administered by the Local Agricultural Department (Direction Départementale de l’Agriculture), they are paid for the National Centre for Planning of Farms Structures (Centre National pour l’Aménagement des Exploitations — CNASEA).

346. Methodologically, these audits are exercised at three levels:

1. At the *first* level, the basic audit, called “certifications”, are both technical and financial. For the technical part, the relevant services attest to the respect of conditions for eligibility of assistance, such as staff recruited, investment done, etc., by controls based on evidence and on spot checks which are planned after analysis of the risk factor. For the financial part, the payer makes sure of the exact sum to pay, the beneficiary’s identity, the date of payment, etc.
2. At a *secondary* level, the audits are exercised by the monitoring unit linked to the Regional Prefect — on average about ten agents each — the role of which is to guarantee the true nature of fund requests sent to the EU Commission before the Commission signs them and assumes responsibility for them. Successive steps of the transaction are monitored, as a guarantee against errors.
3. At a *third* level, the monitoring of audits consists in a detailed random check. It has a double benefit: on the one hand an exemplary case fostering dissuasion, on the other hand the analysis of failure to quality called the system audit. At present this control is under the direct supervision of the Co-ordination Commission of Community Controls (Commission de Coordination des Contrôles Communautaires — CICC). An extension is planned with a view to about ten detailed checks per region/fund/year, which would be made by teams

composed of Treasury Inspectors (Inspecteurs du Trésor) and engineers belonging to the State organisations, under the responsibility of the Regional Prefect (Préfet de Région).

6. The Sanction Of Audits

347. For a long time individual penalties have been left to the states. In France, a national piece of repressive legislation which favoured public finance already existed. This same legislation was also applied to infringements of Community funds. It was confirmed by Article 209 of the Maastricht Treaty, which requires that states process infringements of Community funds like infringements to national public funds.

348. So the customs infringements are prosecuted and penalised by the customary law, which confers extensive investigation and transaction powers on customs officers. Furthermore, the penal code is applied for all frauds and forgery. In practice, prosecution of these cases is slow. Cognisant of this situation, the EU Commission planned a system of specific sanctions for irregularities in the allocation of direct assistance as part of the reform of the Common Agricultural Policy.

349. In agricultural matters, the auditing procedure generate budgetary sanctions against the State which allocated or overlooked irregularities in the allocation of Community funds (*clearance*). In view of the Commission reforms of 1995, the French administration made the following necessary changes:

- The eleven agricultural offices and the services of the Ministry of Agriculture were successfully included in a new agreement procedure of payment organisations after a complete examination of their management and procedures for assistance payment. Some of them were required by the EU Commission to make significant management changes before being included. A re-examination is planned every three years.
- ACOFA is responsible for the preparation of the auditing procedure of the EAGCF-Guarantee in France. Essentially its role is to centralise and transmit information and documents to the EU Commission and, from 1996, to the EAGCF Auditing Commission (Commission de Vérification des Comptes — FEOGA). In addition, ACOFA has to promote the implementation of Community rules in all the services concerned.
- An important reform was made at the end of 1995 and implemented in 1996. The EU Commission delegated the main auditing functions to the national organisations. In France, the chosen organisation was the Audit Office (Cour des Comptes), which created an auditing commission made up of five magistrates supported by about ten civil servants. This commission has a triple role:
 - audit of internal control systems and procedures for organisations in charge of the preliminary investigation of dossiers, that is to say, the agricultural offices and the Local Agricultural Departments (Directions Départementales de l’Agriculture);
 - checking of the exhaustiveness and consistency of these offices accounts; and
 - checking the evidence of transaction samples.
- Once prepared after hearing both parties, the report of the audit commission is sent to the EAGGF, which uses it as a basis for making their “clearance” decisions.

- An internal budgetary rule charges the “clearance” cost to the national budgetary credits of the Ministry of Agriculture (Ministère de l’Agriculture). This rule is now well understood and it has a very motivating effect on the services concerned.

350. For the period 1988-92, the results of the auditing procedure left on average a sum of MF 200 to be paid out of the French budget, that is to say less than 0.5 per cent of the funds received — which is one of the smallest rates in the European Community.

351. For the moment such a system is only available for the EAGGF-Guarantee. The same kind of procedures could be imagined for Structural Funds.

7. The Fight Against Fraud

352. For a few years the protection of Community financial interests has been a major concern for Community institutions as well as for Member States. It was one of the priorities of the French Presidency during the first half of 1995. At the request of the government, the two French representatives at the Co-operation Committee for the Fight against Fraud analysed the situation in France and suggested reforms which were then widely implemented.

353. A new organisation was created: the Coordination Authority for the Fight against Fraud (Instance de Coordination de la Lutte Anti-Fraude — ICLAF), which is the French correspondent of the Community Coordination Unit for the Fight against Fraud — COCOLAF. Co-chaired by the two French representatives at the Co-operation Committee for the Fight Against Fraud — a General Finance Inspector (Inspecteur Général des Finances) and a Counsellor at the Supreme Court of Appeal (Conseiller à la Cour de Cassation) — it includes:

- the Secretariat of the Interministerial Committee for European Matters (Secrétariat du Comité Interministériel pour les Questions Européennes — SGCI), which acts as its secretariat;
- the presidents of the Co-ordination Commission of Community Controls (Commission de Coordination des Contrôles Communautaires — CICC) and their sections;
- the Inspectorate General of Finance (Inspection Générale des Finances), responsible for the control of internal resources;
- a magistrate of the Audit Office; and
- a representative of the Ministry of Justice.

354. Its tasks are the following ones:

- examine and co-ordinate all the national audit programmes;
- regularly monitor the results of the fight against fraud and prepare an annual report to the Prime Minister (Premier Ministre);
- liaise with the UCLAF and similar structures of other Member States; and
- suggest any relevant proposal to prevent and penalise those guilty of fraudulent activities regarding Community funds.

355. Other initiatives were taken to strengthen the fight against fraud. For example the agricultural Coordination Commission of Community Controls (Commission de Coordination des Contrôles Communautaires), reinforced by the arrival of new magistrates, concentrated on the measures to take after

the audit, mainly the reimbursement of incorrectly collected sums. Moreover, this French organisation suggests the possibility for each State Member to put its customs officers at border crossings situated on the territory of other State Members. For example, a French-Dutch exchange took place between Marseilles and Rotterdam.

356. Following its 1991 and 1994 Regulations, the Commission organised a biannual transmission of information on main irregularities by State Members, in order to co-ordinate action against smugglers in the agricultural field (IRENE file) or in the field of Structural Funds (SCENT network). In France, the Customs pass on significant information most frequently.

PORTUGAL
By Helena Lopes³⁶

36. Helena Lopes is since 1996 Deputy General Director, Portuguese Court of Auditors. She has been an auditor on the Court since 1981, with management functions for the last seven years, mainly in the *ex ante* audit department. Ms. Lopes holds a degree in law.

1. Chapter Summary

357. This country paper is divided into three parts:

1. Definition of the statute, jurisdiction and competence of the Portuguese Court of Auditors and the essential features of its more recent development as pertains selectivity, objectives, methodology and control capacity, as well as its connection with internal audit systems.
2. Brief description of the general and real effects of Portugal's entry into the European Union on the competence, structure and activities of the Portuguese Court of Auditors, with special focus on the aspects of control applied to programmes co-financed by Community funds and co-operation initiatives involving the European Court of Auditors (ECA), including participation in joint audits and the accompanying of the respective audits carried out in Portugal.
3. Presentation of some conclusions on the effects of entry into the European Union on the external financial audit bodies, based on the experience of the Portuguese Court of Auditors over the last ten years, among which the following can be highlighted:
 - Legal and practical conditions should be established to ensure that the national supreme audit institution controls the correct application of the available financial Community resources.
 - Audits should involve performance analysis, as well as legality and regularity control.
 - Co-operation with the European Court of Auditors and the Supreme Audit Institutions (SAIs) of the other Member States is important for integration, exchanging of information regarding approaches to control methods and the development of clearly delineated and more efficient control.
 - Careful but serious investment should be made for training relative to the adaptation to EC requirements.

2. The Portuguese Court Of Auditors

2.1. *The Legal Framework*

358. The Portuguese Court of Auditors is the Supreme (and External) Audit Institution and the Sovereign Court of the Second Republic subject only to the law. It is endowed with a collegial nature and total independence. Its judges are independent and it is recognised as a self-governing body.

359. The following are subject to the control and jurisdiction of the Portuguese Court of Auditors (referred to in this paper as the Court): the various departments, services and bodies of central, regional and local administration, whether financially autonomous or not; public institutes and associations; and as a result of recent legislation, also private enterprises, when they are concessionaires of public services or when they receive public funds, including those from the European Community.

360. The powers of the Court are currently divided into the following areas:

- a. The Court holds powers of audit within the scope of the technical assessment of public financial activities.

These powers are reflected in the annual presentation of a report to Parliament on the General State Account, and of reports on the Accounts of the Autonomous Regions, as well as in the approval of audit reports with the most varied range of objectives, scopes or types.

The preparation of the annual reports on the General State Account and the Accounts of the Autonomous Regions is laid out in the law; while choosing the audits to be carried out is usually upon the initiative of the Court. However, audits may also be carried out upon request from the Parliament or the Government.

- b. Development of powers of jurisdiction by means of:

Ex ante control primarily concerned with compliance issues focusing on the legality of actions and on contracts which result in expenditure or financial responsibilities; such contracts cannot be entered into should the Court refuse to apply the seal of approval and certificate of conformance.

The judgement of financial responsibility after examination and verification of accounts and findings have been gathered. This may result in the application of sanctions (either in the form of fines or the reimbursement of any sums misspent) against the guilty parties for any financial infractions which have been detected.

2.2. Essential Features Of More Recent Developments

361. Portugal joined the European Community in 1986, and the Portuguese Court of Auditors can be said to have witnessed a profound evolution, in part as a result of accession.

362. The affirmation of the Court of Auditors as a sovereign body is laid out in the Portuguese Constitution of 1976 and was followed by successive important initiatives destined to modernise both the institution and the type of control carried out. These initiatives were intensified after the 1989 revision of the Constitution and the Reform of the Court of Auditors which then followed (Law No. 86/89).

363. Traditional control, although exhaustive, was not very rigorous. It basically consisted of routine and mass criteria of a formal accounting nature. It was completely disassociated from the control carried out by other audit bodies. That traditional control contrasts to modern day audit principles which themselves adhere to the following:

- a. a far more reduced scope of *ex ante* control which now focuses on initiatives involving greater risk and contracts of a more significant financial nature. *Ex ante* control as an element that slowed administrative activities is now curbed by the establishment of deadlines for decisions by the Court. Should the Court not have issued a decision by this pre-established deadline, approval would be presumed as having been given.
- b. *ex post* control guided by principles of selectivity and actuality of control, emphasising the control of systems, the analysis of internal control and the examination of their reliability and security.

Selective control obliges a definition of mid- and long-term objectives so as to allow articulation of criteria which guarantee the selectivity and enable the effective coverage of the subject under the Court's jurisdiction, within a pre-determined pluri-annual period.

Selectivity criteria highlight specific factors, such as the financial scope or size of a body or investment; the level of risk through the examination of the suitability of internal management structures and the security of internal control bodies; the extent to which the control carried out is opportune and up-to-date, so as to permit the timely adoption of eventual recommendations by the Court of Auditors, and thus permit benefit from those recommendations; and the discovery of serious irregularities, which are pointed out and assuredly proven.

This type of selective control also accompanied the widening of the scope of the Court's remit, which includes business bodies charged with the management of public funds, and covers such areas as performance and sound financial management, without abandoning the principles of regularity and legality which are essential for the jurisdictional aspects. Although nowadays these two principles of regularity and legality are viewed in a less formal but more substantial manner. New areas such as environmental and information technology audits are still very much experimental fields now being entered into by the Court of Auditors.

- c. The need to co-operate with internal administration control bodies is deemed imperative nowadays. This is so because with the external and supreme control powers of the Court being held as the highest instance of overseeing financial control, the Court must stress the examination of the efficiency and effectiveness of internal control systems.

The law establishes that the internal control bodies send their reports to the Portuguese Court of Auditors. This is fundamental for the elaboration of the Annual Audit Programme and for the Court's legal examination of any illicit acts which may have emerged or been identified in the respective reports and which may eventually incur financial responsibilities.

The most important feature of that co-operation, however, is that it should lead to the establishment of a national control system, implemented on various levels and operating in a co-ordinated manner by means of the articulation of the internal control programmes of the various bodies, thus avoiding duplication of efforts and unnecessary audits and instead an increase in effectiveness and greater quality of control.

The law states and defines with some detail this kind of system for the control of the Community Support Framework. In this light, co-operation and exchange of information among the several levels of control is of crucial importance.

3. Effects On The Portuguese Court Of Auditors Of Portugal's Entry Into The European Union

3.1. Overall Effects

3.1.1. Effects on the Powers and Structure of the Court of Auditors

364. Portugal's entry into the European Union did not in itself result in any radical changes in the legal powers of the Portuguese Court of Auditors, nor in its organisational structure.

365. The only effect felt at a legislative level was when the 1989 Law declared that the Court was now responsible for examining "*the application of financial resources provided by the European Community in compliance with the law in force and in co-operation with the appropriate Community bodies*" pursuant to Article 188c.3 of the Treaty.

366. This would, however, have always been so as regards the powers of the Court, since the majority of these allocated Community resources are budgeted through public services and thus subject to the control of financial activities carried out by the Court.

367. Some considered that this statement of the 1989 Law enlarged the scope of the Court of Auditors' control, by clearly allowing the Court to look into private enterprises' use of EU funds.

368. At that time, only the public bodies were subject to the Court's financial control and, although one could pretend that, within that very control, it would always be possible to verify the correct use of the funds that public bodies granted to private enterprises, this possibility became unquestionable with the 1989 Law, concerning the EU funds.

369. Nowadays, there is no doubt, since Law No. 14/96 declares that the Court of Auditors must assure the financial control of those private enterprises that receive public funds, whether they are EU funds or not.

370. The Court's organisational structure did not undergo any significant alterations either. Control of the application of funds and compliance with Community regulations is carried out by all the audit departments within their specific area of activity.

3.1.2. Effects on the Activities of the Court of Auditors

371. The apparent lack of effects on both the powers and organisational structure of the Portuguese Court of Auditors significantly contrasts with the important changes in the *activities* of the Court as a result of entry into the Union. For example:

- a. Economic, legal and political integration among the Member States of the European Union, as well as the strengthening of supranational systems and powers, have had profound changes on national realities and financial aspects in particular, thus obliging control systems to adapt to the new structures and regulations.

These changes imply a tremendous effort on the institutional and individual level, as well as investment in research and vocational training towards the understanding of new realities and regulations.

Each area of control must thus contemplate Community directives and regulations as applicable to each situation; the mechanisms of integration into national legislation; new institutions; migration; and control and management systems such as those connected to the operation of the different Community funds.

One of the most important, but perhaps also the most difficult and slowest, aspects of adaptation has been the effort to make all technicians and magistrates assimilate and apply these new regulations.

- b. The role of the Portuguese Court of Auditors as the national interlocutor of the European Court of Auditors pursuant the Community Treaty — and the fact that within this widened European Community, co-operation between Supreme Audit Institutions of other States becomes imperative — has obliged the Court to enter this European “dynamism” of financial audit which has, in itself, become another pillar of European integration and has served as a boost for the modernisation of the institution as pertains the issues in section 2.2.

Contacts among the Liaison Officers (representatives of each of the SAIs), the meetings of specialised Working Groups, the Resolutions of the Contact Committee of the Presidents of the Supreme Audit Institutions and the co-operation on audits, have resulted in the development of a joint approach to control concepts and methods within the European space. The two existing control models, distinguished by the type of power and decision (the jurisdictional Courts and the Auditor-Generals) have thus been brought closer together by approaching methods.

This demand for harmony in criteria and interpretation of Community legislation is also imposed by the increasing number and improved quality of Community or common European Union policies and the necessary operational and financial powers vested in the Union departments so as to guarantee application. The objectives of harmonisation have been guided by concretely defined aims, set up together by the SAIs:

- the elaboration of an Audit Manual to be adopted by all SAIs within the European Union;
 - the introduction of an articulated control programming system (either annual or pluri-annual);
 - jointly applied programmed vocational training actions;
 - the establishment of exchange of information regarding of information technology systems;
 - the existence of a co-ordination structure for actions to be carried out and to be presided over by the European Court of Auditors and the national audit institutions on a rotation basis.
- c. The new circumstances called for some adjustments in the management of personnel, budget and technical work although these circumstances did not lead to changes in the formal structure.

The assignment of a Liaison Officer (whose responsibility is to organise the audits and meetings involving other SAIs and deal with all matters concerning the interlocutor function) turned out to be insufficient, as the number of co-operation initiatives and European Court of Auditors’ audits increased, demanding that a permanent group of two or three people support the Liaison Officer in those tasks.

The fact that every audit department has to know and apply EC requirements and may have to co-operate with each other in horizontal audits led to a reinforcement of co-ordination between them; of the individual and collective effort to learn and do better and to face and answer new demands, all the while simultaneously performing traditional day-to-day work; and led to the reinforcement of the need to increase training programmes on EC rules.

Budgeting had to be adapted to face bigger expenses for travelling, representing, hosting and training.

3.2. *Real Effects of Portugal's Entry into the European Union on the Activities of the Court of Auditors*

372. The day-to-day operations of the Court, as described above, reflected changes in some practical aspects.

3.2.1. Ex ante Control

373. The aim of *ex ante* control is to check whether contracts or acts which represent expenditure or financial responsibilities are in accordance with the law in force and whether respective obligations are financially covered by the budget. This type of control is also applied to analyse compliance with Community law and the correct budgeting of any Community funds which may be involved.

374. This type of control is particularly significant as pertains contracts where it may be found that Community laws on public markets have not been complied with, leading (and have in fact led in the past) to the refusal of the seal of approval, which means that the contract or expenditure cannot be carried out.

375. Problems arise when there are contradictions between Community and national laws because directives either have not been adopted into national legislation or have been inadequately adopted.

3.2.2. Ex post Control and Judgement of Accounts

376. The *ex post* control of the application of Community funds and compliance with Community legislation, namely in the audit of state aid measures, control of VAT in intra-Community transactions, or detection of fraud, is carried out through the examination and verification of accounts either for the elaboration of reports or for sentencing of sanctions or within the framework of audits contained in the Audit Plan elaborated by the Court or requested by Parliament or Government.

377. The Court of Auditors' powers to audit the application of Community funds has added the analysis of financial structure of investment programmes and projects to the general criteria for selection, thus guaranteeing a systematic selection for the control of programmes and projects which are co-financed by the said funds.

378. The said investment programmes or projects usually involve various bodies, various types of financial cash transactions, different types of contracts and expenditure, various economic years and management. These have been subject to control on operational interventions; examinations as to management structures and internal control systems at the various levels; examination of the application of Community financial resources granted under the Community Support Framework; examination as to whether funds were applied in compliance with the objectives for which they were granted and whether results correspond to the objectives defined.

379. *Ex post* control initiatives may end with the approval of reports containing recommendations, but also with the application of sanctions for financial infractions detected, including financial embezzlement.

380. Numerous audit actions were carried out on programmes involving the Community funds. At the outset of the Community Support Framework, a global audit was carried out with the aim of analysing and examining the legal and actual decision, information, examination, control and financial circuits as pertains all the Structural Funds and complementary financial instruments.

381. The most recent audit carried out as pertains Community funds focused the application system of the sums granted under the European Social Fund in Portugal and was carried out upon request from the Portuguese Government. The audit covered a 10-year period and was directed at the examination of management models and covered the concepts of efficiency, effectiveness and economisation of the activities carried out by the audited bodies and included the internal information and control systems.

382. The growing preference for auditing programmes and projects, or even specific areas of financial activity which may involve the examination of multiple bodies, has led to the setting-up of multi-disciplinary audit teams which comprise members with skills in various areas and even recourse to outside experts in specific areas. This demands enormous institutional flexibility which is not always easy to achieve.

3.2.3. *Co-operation with the European Court of Auditors*

383. The experience of European integration has implied the need for an evolution in the SAIs of the various Member States with a view to developing new methods of articulation among themselves, and advising co-ordination of audit activities of each of them through a common plan with the objective of increasing and rationalising coverage as well as reducing costs.

384. However, this implies a prior harmonisation of the audit practices and methods of the various institutions. It was thus decided that measures leading to this uniformity should be adopted, such as joint audits involving the European Court of Auditors and national audit institutions, while simultaneously preparing an audit and procedural manual at a Community level, which is now entering the final phase.

385. The Portuguese Court of Auditors has pledged itself to this project from the outset and has not only accompanied European Court of Auditors audits carried out in Portugal but has also participated in joint audits.

386. As national interests pertaining to control become increasingly harmonised with those of the European Court of Auditors, especially in projects or programmes co-financed by the European Union and its Member States, so co-operation between the Portuguese Court of Auditors and the European Court of Auditors has intensified. This has been more particularly visible from 1990 onwards with the signing of the agreement on the co-operation methods between these two Courts.

387. The said agreement states that more amplitude is to be given to the exchange of information deemed indispensable for a more complete documentary control and endows Portuguese Court representatives with equal powers to those of the European Court of Auditors representatives when involved in joint audits.

388. Co-operation between the Portuguese Court of Auditors and the European Court of Auditors has thus developed in two areas:

A) Accompanying of European Court of Auditors Audits

389. The Portuguese Court of Auditors has accompanied every European Court of Auditors audit on Community revenue and expenditure carried out in Portugal.

390. Co-operation of this kind is guaranteed by means of a more or less typical procedure which usually involves the following steps:

- i. The European Court of Auditors informs the national Court of Auditors of the missions it plans to carry out in Portugal over the following four months.
- ii. This is followed by exchanges of information between both Courts during which the details and demands of each mission are agreed upon (date, place, objectives, names of the public administration bodies to be audited and the respective managers).
- iii. The Portuguese Court informs the bodies to be audited and the respective members of Government four weeks prior to the audit. They are also informed of the audit programme and of the objectives therein.
- iv. Observation is guaranteed by one or two auditors from the Portuguese Court of Auditors throughout the whole mission.
- v. Upon conclusion of the audit, the European Court of Auditors sends a "Draft of Findings" to the Portuguese Court of Auditors. This document points out the main shortcomings or anomalies detected, and requests that the Portuguese Court inform the audited bodies and that the latter then present their comments within a two-month period.

391. Reply from the audited bodies is optional. Should a reply be issued, the final report will be re-examined in the light of the observations made.

392. This co-operation has proved to be extremely useful for both sides in that the European Court of Auditors benefits from the knowledge that the Portuguese Court of Auditors has of the Portuguese Central and Local Public Administration; language barriers are overcome; and the time necessary for the enquiries is substantially reduced. The Portuguese Court increases its wealth of knowledge of the European perspective and the specific measures to be controlled, thus benefiting from a wider view and additional information on programmes which it may also need to control.

B) Participation in Joint Audits

393. The Portuguese Court of Auditors and the European Court of Auditors have carried out joint audits more specifically in the field of agriculture. A joint audit focusing on Structural Funds is currently being planned for 1998. Another joint audit on fiscality and involving SAIs from other European Union Member States is currently underway.

394. Pursuant to the protocol agreements with the European Court of Auditors, joint audits are based on a joint programming of methods and involves a joint team who also produce a joint report.

395. Nevertheless these audits raise some difficulties and require a certain amount of caution which means that they are not frequently carried out. Thus:

- i. Planning and programming has to take place far in advance (six to twelve months), given the difficulties created by distance and the need to ponder many relevant issues.

- ii. Identification of topics presupposes a common interest and thus requires reciprocal information exchange on programmed pluri-annual tasks of both Courts, as well as the discovery of areas where Community and national financing are associated and where an intimate link between Community and national legislation is to be found.
- iii. The preparation of the audit must include exchange of information on national and Community regulations as pertains the issues in question; the discussion of the global audit plan; the establishment of criteria for the selection of projects to be audited; the clear and joint definition of audit methods to be applied, *in loco* for example; and the precise and rational distribution of the audit tasks to avoid control duplication.
- iv. The elaboration of a joint report proves to be especially difficult given the difference in motivations, addressees and possible audit results, linked not only to distance, but also to the need to keep cost at a reasonable level.

The option has been for each side to produce its own report which it then communicates to the other. The definitive joint report is composed of all the reports adopted by each institution who will then use them for their own specific ends.

396. In spite of the difficulties and additional costs involved, the experience continues to be regarded as positive and enriching, as it allows for a useful interpenetration of knowledge in areas which are particularly relevant to integration, and provides an opportunity for an exchange of experiences as to audit methods and procedures which mutually benefits both SAIs and encourages the necessary uniformity for the development of co-ordinated audits.

397. In co-ordinated audits, programmes will be jointly drawn up and each institution will then develop its own audit tasks, which allows for the rational division of human and financial resources.

3.2.4. *Participation in Specialised Working Groups*

398. Within the co-operation framework between the SAIs of the European Union Member States, including the European Court of Auditors, and in conjunction with the work carried out by the Liaison Officers and the Contact Committee of the Presidents of the SAIs, Working Groups have been established so as to make in-depth analysis of issues of particular interest, to report on existing situations and to study development and standardisation proposals. The work of these Working Groups has proved indispensable to the evolution of integration in this area of control.

399. The Portuguese Court of Auditors has taken part in various of these groups and gleaned positive results from participation on the contemplation of the issues in question and indications as to their treatment at an internal level.

400. Portugal is the co-ordinator of the Working Group on control of State Aid Measures; the relater of the Working Group on control of Public Markets; and member of the Groups on control of VAT in intra-Community transactions and on relations between the European Court of Auditors and the SAIs of the Member States, which has recently been established.

3.2.5. *Resources*

401. We have already stated that Portugal's entry into the European Union did not signify any major organisational changes within the Portuguese Court of Auditors, in that, any additional control or audits are handled by the whole organisation within their respective operational areas. Participation in joint audits or working groups is the responsibility of managers and auditors specially trained in the areas in question, who may come out from any department.

402. The organisation thus draws greater benefits from the newly acquired knowledge which seems to be the prime objective. There would in fact be no advantage in participating in these joint projects, which involve significant additional costs, if the information, teachings and experience were retained by those whose activities are exclusively dedicated to external co-operation and not transmitted and absorbed by the institution as a whole.

403. There is, however, a real need for the existence of a small service dedicated to the co-ordination of the actions carried out, and responsible for most of the logistics and organisation involved, especially as pertains accompanying of European Court of Auditors audits which have gradually intensified — 30 audits were accompanied throughout the various phases in 1996.

404. We could estimate that co-operation with the European Union, participation in audits, in working groups, in international meetings and logistic support occupies 6 people on a full-time basis, although this is distributed among various elements covering all of the operational areas of the Court.

405. Control of new regulations and realities resulting from European integration is handled by the Court as a whole, as part of its normal operation, thus making it impossible to ascertain the respective costs involved.

406. There has been a need to make large investments in vocational training. Besides the research and training undertaken everyday "on the job", training programmes have been organised namely regarding Community Law, the various European Union Funds, the Community Support Framework, Community Policies, Community Resources, Community Finance, VAT in intra-Community transactions and External Auditing in the European Union. These programmes take place in the Court of Auditors, usually last from 9 to 24 hours each and statistically every auditor has already been on at least two training programmes on EU subjects.

407. About 80 persons per year are chosen to go to these EU training programmes and some others to attend training projects developed by other institutions, including practical training in other SAIs.

408. Expenses associated with travel connected to external co-operation activities have increased significantly since accession to EU, although the co-operation with the SAIs from the rest of the world, their international organisations and with the Portuguese-speaking countries has increased at the same time, thus being as responsible for increased expenses.

409. Save for the very exceptional case, all of the work carried out in the scope of co-operation initiatives and production of texts and dissemination of information is done in both English and French. The staff involved are thus obliged to develop their foreign language skills so as to reduce additional translation costs as well as increase work performance.

410. Language acquisition is an obstacle which has proved rather difficult to overcome.

4. Conclusions

411. The Community Treaties impose no changes on the powers of the national audit institutions, but do declare that any audits carried out by the European Court of Auditors on revenue and expenditure of Community funds within the Member States must be carried out in co-operation with the said national institutions. This implies that the national audit institutions must play an active role in this area which should be recognised.

412. Examination of the correct and profitable application of the available financial Community resources must be the task and responsibility of the national Supreme Audit Institution whose analysis will necessarily contain the national perspective. Conditions to execute this objective must thus be established.

413. The traditional view of applying sanctions must be supplemented by an effort to reinforce principles of sound financial management, efficiency, effectiveness and economicity. Audits must focus on systems and results with the aim of identifying weaknesses in the organisation and decision-making process, as well as in the effects of programmes and projects and, at a global level, in the objectives and implementation of public policies, providing a diagnosis of the causes and avoiding repetition of similar situations in the future.

414. The audit must not however veer away from the principles of legality and regularity deemed fundamental in view of the increasingly important Community struggle against financial fraud and tax evasion. This perspective has become a dominant consideration since the signing of the Treaty of the European Union.

415. Entry into the European Union has not implied the adoption of one single model as pertains external financial audit.

416. Varied historical and cultural backgrounds must be respected and maintained and interpenetration of systems must only contribute to a mutual enriching and growth. Jurisdictional systems provide audit systems with a set of instruments which allow for a more in-depth examination of legality and regularity, and audit systems supply jurisdictional systems with the necessary framework for modern large-scale public finance, where financial control focused on bureaucratic and formal accounting analysis of financial irregularities is redundant and no longer makes sense.

417. Co-operation between the national SAIs themselves and with the European Court of Auditors has become rather intense. Participation and co-operation has a price, but the exchange of experiences can also bring about very positive results as to the modernisation of the institutions, better understanding, assimilation and application of Community regulations, an approach in control methods amongst the various Member States and the development of articulated and more efficient control.

418. Integration into a new legal and economic order calls for compliance with new regulations, imposes great investment in adaptation, training and learning, and the option between setting-up specialised departments or basic departments of support to a global organisational effort. This is in addition to the control already carried out previously.

419. A high number of audits carried out by the European Court of Auditors within each Member State are to be expected, and this may imply the need for accompaniment by the national audit institution.

420. Whether participating in joint or articulated audits, careful planning, compliance with mutual interests and uses and the clear definition of communication channels are fundamental and are the keys which guarantee that audits will be efficient and effective.

421. The entire institution must benefit on the effects of co-operation with the SAIs of the European Union.

SWEDEN
By Lage Olofsson³⁷

37. Lage Olofsson is Audit Director in the Swedish National Audit Office, where he has served since 1983. He is the Deputy Head of the Annual Audit Department and responsible for the co-ordination of the annual audit related to the execution of EU funds in Sweden. He is also a delegate to the Swedish National Committee on Fraud.

1. Chapter Summary

422. The Swedish National Audit Office (RRV) has undergone some changes in recent years as a result of Sweden's membership of the European Union.

423. After a short introduction to the Swedish administrative system and the system of allocation of responsibility and control, the papers describes some of these changes in relation to the RRV's task, organisation and resources. Some critical points connected to the implementation of the EC Budget in Sweden are also noted. We have what we can call a new risk situation.

424. The paper's main emphasis is on the challenges presented by EU membership which the RRV has faced over the past two years. It has been important to take steps to improve our prerequisites and to maximise the effect of our auditing measures. Four areas are of special interest: efforts to comprehend and language skills; approaches for applying administrative *acquis*; co-operation between auditing bodies; and changes in the auditing focus in different phases of accession.

425. The paper concludes with some reflections on issues that, with the benefit of hindsight, could have been dealt with in a different way or at an earlier stage in both the administration and the RRV. These conclusions cover issues which increased the risk of deficiencies in the administration's ability to implement the EC Budget in a safe and secure manner, appropriately and effectively. These issues ought to be of interest to study in order to make use of our experience in future relations with the Community. Examples of such important issues are to:

- deliberately give auditing resources greater priority before accession;
- enumerate the deficiencies in the internal and management controls in public administration early in the accession process;
- take more active steps to see that these deficiencies are swiftly rectified and that the responsibility for this is clear;
- ensure that the national implementation organisation for the EC Budget, the responsibility and control structure, and the external auditing function is described in writing and visual images, both in-depth and in a more accessible form, in the principal European languages;
- at an early state obtain a more cohesive picture of the requirements and rules which one must deal with when joining the EU;
- devote more time to advice and training concerning the administration of EC funds in this context and at an earlier stage build up knowledge and expertise both in administration and at the Supreme Audit Institution.

2. Introduction

426. The Swedish National Audit Office (RRV) has undergone some changes in recent years as a direct and indirect result of Sweden's accession to the European Union on 1 January 1995. In this paper, I will draw some conclusions from audit and other activities connected with the execution of the EC Budget in Sweden.

427. By way of introduction, I will briefly discuss the way in which responsibility and control are allocated in the Swedish central government administration regarding the use of Community Budget funds in Sweden.

428. The *Riksdag* (Parliament) decided as late as December 1994 on the guidelines which apply to the Swedish administration of EC-related payments and contributions and how Community resources are to be protected against improper or ineffective use.

429. The principles in the guidelines can be summarised as follows:

- High priority is given to monitoring and checking effective compliance with EU secondary legislation. Swedish national inspection and auditing will increase in this area.
- Both Sweden's payment to the EC Budget and return flows from the EC Budget to Sweden in the form of state-administered grants and structural aid are entered and accounted for as gross figures in the Swedish State Budget.
- EC resources administered by Swedish government authorities are regarded as state resources. Thus, they are subject to the same provisions regarding responsibility, accounting, monitoring, inspection, auditing and sanctions as those provisions that apply to purely national budget resources. This means, among other things, that the annual accounts of the authorities responsible include EC-related activities, and that the handling of resources is audited by the RRV and the *Riksdag*'s auditors in the same way as national resources.
- Where Community law imposes special requirements — for example, reporting and controls — the authorities responsible are required to fulfil the Community requirements in addition to national requirements. Overall, national provisions have proved to be able to accommodate the provisions of EC secondary legislation.
- Few authorities handle payments of EC-related resources. In addition to internal supervisory functions, they all have internal audit functions. The quality of control and internal audit is subject to inspection by the RRV.
- In each sector, there is a co-ordinating authority that continuously monitors the results within the sector and carries out supervision of the correctness and accounting of payments. This responsibility also involves ensuring that measures are taken when shortcomings or possibilities of greater efficiency are identified. This is particularly important in sectors in which several national authorities are co-operating.
- It is up to each responsible sectoral authority to co-operate with other Member States and the Commission to protect the Communities' financial interests. A special committee has been set up under the Ministry of Finance with responsibility for the co-ordination of the national anti-fraud operations among the authorities and ministries concerned.

430. The control structure that already existed in the Swedish administration provided the foundations for handling the EC Budget.

431. The authorities responsible monitor, control and supervise activities to ensure that they are in accordance with the rules in force and that resources are used correctly and efficiently. This applies both to national resources and resources which derive from or are intended for the Community Budget. Separate functions for the internal audit of the authorities check the quality of the authorities' internal control and financial accounting. Internal auditing operates in accordance with good accountancy practice based on international standards — i.e. independent of management and independent of those who carry out the activities. Internal audit reports to management are made available for external audit and should prompt the necessary measures on the part of the authority.

432. The RRV carries out independent external audits and is responsible both for the annual audit of accounts and administration and for checking the effectiveness of state activity through effectiveness (or performance) auditing. The RRV audits all state authorities, a large number of state companies and foundations and state-run activities in general. In the case of companies and foundations, in accordance with company rules and regulations, the RRV appoints co-auditors side-by-side with the elected auditors and also has the possibility of carrying out an effectiveness audit.

433. The *Riksdag* Auditors (RR) are the audit body of the *Riksdag*. The auditors are politically elected members of Parliament. According to the statute which governs their work, the RR can audit all state activity, including the work of the Government, and reports directly to the *Riksdag*. The resources which derive from or are to be paid into the EC Budget are subject to audit in the same way as purely national resources.

3. The National Audit Office (RRV)

3.1. The Task

434. The RRV audits (in the same way as for national resources) the use, control and accounts of resources destined for the EC Budget and checks that commitments entered into are effectively carried out. The RRV reports are public information. The RRV reports to the authorities responsible and to the Government. Where the auditors report objections and other serious deficiencies, the audited authority must submit an account of what occurred to the Government, indicating what it intends to do to correct the deficiencies. In turn, the Government has to report to the *Riksdag* for the measures it has taken on the basis of the RRV's observations.

435. The RRV's stated aim is to promote effectiveness and the highest standards of financial control in the government administration. The RRV has two operative audit departments, the Annual Audit Department and the Performance Audit Department.

436. Both annual and performance auditing are conducted independently in accordance with current auditing standards. The RRV's audits are performed in accordance with the government's spending authorisation, i.e. without any direction from the political level or from the authority undergoing audit.

437. In the Annual Audit, the RRV each year audits and expresses a final opinion (statement) on the annual accounts, including a results report, of all organisations audited. The opinion is based on an evaluation of whether:

- the information submitted to the Government is fair in all essential respects;
- the systems which are designed to achieve satisfactory internal control actually function in practice — that is to say to whether they ensure that the funds have been used for the purposes intended and have been handled in a safe and secure manner; and
- the administration performed by the management complies with the relevant regulations.

438. The organisation's handling of EC-related funds is also subject to an evaluation and a statement. For several years now, the opinion includes the management and administration of the organisation. The observations made shall be reported to the Government, the ministries concerned and the management of the body audited.

439. The task of the Performance Audit is to study whether the objectives laid down by the Parliament and the Government have been fulfilled, and if the original reasons for the Government's commitments are still tenable in the present situation. The task also includes examining the effects of decisions made by the Parliament and the Government, the efficiency of the means used to achieve these effects, as well as initiating change and efficiency in government operations in other ways, for example by questioning rules and circumstances which stand in the way of efficiency.

3.2. *Legislation*

440. RRV's role is not regulated by law but by a special state ordinance. The absence of a statutory basis means that the supreme audit institution's (SAI) independence is not guaranteed by law. However:

- Auditing acquires greater status and authority if it has a statutory basis. Indeed, this probably has a preventive effect against corrupt practices by public authorities. A statutory basis provides better pre-requisites for institutional co-operation within the Community.
- The national auditing body needs the right of oversight as regards final beneficiaries. The reason is two-fold. Firstly, it gives the SAI an increased possibility to verify, whenever needed, whether an authority's internal control and internal audit have been implemented in a satisfactory manner. (This would also have preventive effects.) Secondly, the right of oversight would give the SAI similar rights to those possessed by the European Court of Auditors (ECA) and thus would put them on equal ground.

3.3. *New Prerequisites*

441. EU membership has meant certain modifications of the prerequisites for the RRV. Amongst other things, we are responsible for the auditing of the fund co-ordinators, the paying agencies and other authorities involved in EC-related programmes as well as measures implemented in Sweden. This means that the RRV must audit and assess the handling and internal control of more complex regulatory structures and systems. It has also been given new assignments and wider powers.

442. In addition, the RRV has been assigned to organise support to the European Court of Auditors in their auditing activities in Sweden and to act as a certifying body in the agricultural sphere for the National Board of Agriculture's annual statement of accounts to the Commission. The Government's requirements and expectations regarding various forms of support in matters related to the EC Budget have increased considerably. As the Government's expert advisory body on audit questions, the RRV's competence is employed, for example, to provide information upon which decisions and negotiations may be based. The RRV is also represented in the National Committee on Fraud, an organisation whose main task is to provide a forum for co-operation and an exchange of experience between the national authorities and ministries responsible for the correct, cost-effective and secure use of EC funds in Sweden, and regarding measures to be applied if it is suspected that funds are being used inappropriately.

3.4. *Organisation And Resources*

443. We immediately established a Liaison Officer post with direct links with our Auditor General. The Liaison Officer has a secretariat to manage the European Court of Auditor's visits to Sweden and auditors to accompany the ECA. The secretariat is also assigned to assist our auditors in their contacts with and visits to the ECA and other Community institutions. A special EU information group, consisting of representatives of the RRV's various departments, was also set up.

444. We have noted that these arrangements were insufficient, despite the personal commitment of those concerned and the allocation of resources equivalent to three person-years. In our view, increased efforts to prepare for and handle meetings at the Liaison Officer- and Director General-level would be justified.

445. One very practical matter which the RRV has not yet solved is how the large volumes of incoming information about EU-related questions should be handled so that the information reaches the proper person in time. In general, internal communications need to be improved.

446. The annual statement plays an important part in guaranteeing Swedish national requirements and the terms of the Treaty of Rome, and in providing a basis for requiring responsibility. In terms of the administrative solutions which have been adopted in Sweden, we estimate that the additional audit we do as a result of the membership of the EU represents approximately 10 person-years for checking security, appropriateness and efficiency in the traditional fund areas. This corresponds to about 4 per cent of our auditing personnel resources. It includes examining programmes, objectives and regions, etc., control of security aspects and appropriateness across the chain of control, in-depth analysis of the quality of the control of programmes and funds undertaken by the authorities concerned, and analyses of whether measures and steps achieve the desired results.

447. In addition, however, there are needs for resources to deal with the administrative solutions within the framework of the new Community initiatives. There is also a need for special arrangements for remuneration for tasks which do not form part of the basic auditing assignment, for example certification of the annual accounting information submitted to the Commission in the EAGGF–Guarantee section.

4. New Risk Situation

448. The Swedish Government gives priority to compliance with EC requirements, that is to say satisfactory financial control at all levels, effective audit and active measures in the event of deficiencies. Our fundamental assignment is to audit the quality of the information provided by public authorities in their annual reports, their administration of internal control systems and the efficiency with which funds are utilised.

449. Among other things, in recent years our experience of such scrutiny is that the authorities which have been allotted special responsibility for payments from EC funds have found it difficult to meet acceptable standards of internal control. They also have failed to understand or recognise the need for satisfactory internal controls. Since this situation has now changed — as the result of, among other things, the establishment of internal auditing units — one of the remaining tasks is to establish a system for the implementation of EC budgetary funds which will maintain satisfactory control standards at all the relevant levels in Swedish public administration. It is especially important to monitor the risk of deficiencies at the point of intersection between the various authorities concerned.

450. We cannot exclude the possibility that, to some extent, the reason for mismanagement, irregularities, fraud and corruption in the EC payments system resides in the way the system is designed. If national and European budget funds are used for the same purpose, there may be a greater risk of error in relation to a relatively complex regulatory structure and the principle of additionality. The fundamental approach and structure implicit in the administrative systems of control which now apply to Sweden as a result of EU membership differ in certain important respects from our national practice. This means that it is not always easy for Swedish officials to understand and implement these control systems.

451. As a Member State — and particularly in view of the fact that a secure, appropriate and efficient utilisation of the EC Budget has become a Swedish profile issue — Sweden must avoid the risk of a situation in which our national credibility is endangered. In addition, the general public's confidence in the legitimacy of the EU project might also be at risk. Fraud and errors undermine such confidence. Furthermore, the general economic situation is extremely difficult. Considerable effort must be devoted to ensuring that the limited resources available are in fact used for the purposes for which they were intended and that the measures taken achieve the desired results. Naturally, the possibility of reimbursements to the Community and other sanctions must not be forgotten in this context. The quality of RRV's control of the way in which Swedish authorities that handle EC funds fulfil their responsibilities is a crucial factor in this issue.

452. While Sweden, like other Member States, has accepted that it should comply with the existing EC rules, the rules should not be regarded as unalterable in a long-term perspective. This means that the RRV must also analyse the risks of inefficiency in and between various EC funds and systems, and conflicts of objectives between these funds and systems. There must also be scope for examining whether Community-financed programmes and initiatives are organised and implemented in a way which ensures that the national freedom of action provided by the *acquis communautaire* can actually be called upon, where this is considered desirable. In situations of this nature, the RRV will examine the question of whether, and to what extent, the current rules stand in the way of efficient solutions.

5. Two Years Of Auditing As An EU Member State: Challenges And Approaches

453. What are the new challenges presented by EU membership, and how has the RRV tackled them? We have considered it important to take steps in four areas to improve our prerequisites and to maximise the effect of our auditing measures.

5.1. Efforts To Comprehend And Language Skills

454. The approaches, values, and experience of administrative systems and other factors on which EC legislation and other regulatory structures are based differ from those which apply in Sweden. If auditing is to be carried out in a comparable manner, there must be a system of auditing rules that the auditors dealing with the process can understand. The auditing methods must be appropriate for the relevant regulatory structure and the situation to which they apply. It has not always been particularly easy for the RRV's auditors to understand the underlying reasons for the difference in approaches.

455. Language difficulties are part of the comprehension problem. Different administrative approaches and traditions between Member States are another. Increased experience with languages and administrative traditions is particularly important in establishing satisfactory prerequisites for communications between colleagues in different countries or institutions. Successful communications provide a basis for a professional exchange of information and knowledge and for greater efficiency in matters of common interest.

456. This is why at the Swedish National Audit Office we started courses in English and French for members of our staff whose language skills had become "too rusty" for the assignments they had to perform. The ability to handle English as a working language is a minimum requirement in many contexts, particularly in an environment in which international contacts have become as frequent as they are at the RRV.

457. The RRV has drawn attention to the linguistic problems in connection with the translation of the EU *acquis*. It appears that when translators and economists meet, this does not automatically result in translations which are easy to interpret for people involved in public administration or external auditing. The RRV underestimated this problem, and several other Swedish public authorities have discovered the translation and comprehension problems.

458. We have organised a series of seminars of varying length on European legislation for members of our staff who work on EU-related questions and others who expressed a more general interest.

459. Over the past few years, the library and information centre at the Swedish National Audit Office has undergone several changes. The most significant developments are:

- more emphasis is focused on international material; and
- information technology plays a much greater role for searching and retrieving information required by the employees at the National Audit Office.

460. We now have access to all the “Eurobases” with regulations, directives, legal documents, publications and other information from the European Union and their institutions. Information and databases with references, full texts and facts available on Internet are increasingly important to provide information needed in the daily work at the Office. A “search station” with access to online databases and CD-ROMs of interest to the National Audit Office has been established in the library. Anybody at the Office can use the facility and search for information on a self-service basis and can, if needed, receive support from the library staff. Beginning in Spring 1997, the Audit Office library also gives full library service to the National Board of Trade located in the same building. This co-operation also gives us access to their expansive collection of EC documents in English, French and Swedish, especially legal documents and legal cases as well as specialised databases, e.g. a database of the implementation of EC directives and regulations in Swedish legislation.

461. We also considered that it was important to start a dialogue with the European Court of Auditors, SAI colleagues in other countries and the Commission in order to give us a better understanding of the requirements and expectations which applied to administration and control in connection with utilisation of the EC Budget, and also to help our counterparts to understand the “Swedish model”. We organised study visits, informational meetings, and similar activities. Since we had been co-operating with Denmark in several other spheres, and Denmark has been a Member of the Community since 1974, we considered it was particularly important to discuss these questions with the Danes.

462. When we joined the EU, we were also invited to participate in day-to-day co-operation with the European Court of Auditors and the national auditing bodies in Member countries. The formal link between these organisations (the “Liaison Officers”) plays an important bridge-building role in this context between auditing bodies in Member countries. Liaison Officers also assist the ECA and provide base when it visits Member countries for auditing purposes.

5.2. *Application*

463. In the initial phase, the RRV also focused on developing an approach for applying the EU administrative *acquis* to the Swedish system of public administration. This might appear to be a task which lays outside the auditing sphere, but at that stage the RRV’s position was that membership of the EU was, in itself, a task of the greatest national importance. As a result, and in view of the experience

already gained, the RRV had a “duty” to help to ensure that this experience was used to build up an effective control system.

5.3. Co-Operation

464. In the light of Swedish legislation on public access to information, the RRV’s auditing process is characterised by openness and dialogue with the organisations which it audits and with other parties concerned. We naturally drew the conclusion that this attitude would also apply to the auditing of resources from the EC Budget and to contacts with Community institutions. Indeed, all information which is public and accessible in Sweden to interested parties is also public and accessible to Community institutions and their staff. In addition, we discuss our audit plans with the European Court of Auditors and forward our reports to the ECA immediately after publication.

465. Co-operation between auditing bodies within the EU must also be characterised by respect for the independence of the various audit bodies involved, where leadership is not imposed as a rule, but decided by the needs, on a case-by-case basis. The *a priori* conditions are basically that each body must determine itself whether co-operation will give it some added value. The various audit bodies must also reach agreement on an audit approach which is acceptable to everyone.

466. As Sweden’s supreme audit institution, it was appropriate for the RRV to establish formal contacts with the Community’s external auditors, that is to say the European Court of Auditors. In fact, under the Treaty, this is the only feasible EU relationship in formal terms for the RRV, as a government authority. Formal contacts are defined as official communications and possible participation in common projects or similar activities. Contacts between the RRV and the ECA take the form of contacts between two independent and equal institutions.

467. We are therefore developing relations characterised by mutual and well-defined interests. An exchange of information has been the first step, and we have now embarked on our first concurrent audit.

5.4. The Auditing Focus

468. In 1995-96, auditing primarily focused on helping to ensure secure and appropriate use of EC budgetary funds, in accordance with the criterion of the risk of major errors. In other words, the RRV focused on areas where it was considered that the risk of major errors was greatest. At that stage, efficiency auditing was mainly used to gain experience.

469. This work was conducted in various phases. In the first phase — prior to implementation of the administrative routines (including computer systems) by the public authorities with responsibility for EC funds — we analysed whether the routines which had been planned were of satisfactory quality and complied with the Community’s specifications. Initial evaluations of the way in which the new internal auditing units had been built up were also carried out at this stage. These auditing units became mandatory as the result of a new statutory requirement for large public authorities with a regional structure and/or delegated responsibility as regards the implementation of operations. This mandatory obligation was due to EC requirements and criticism made by the auditors over a period of years. In this stage, an important part of the analysis involved an assessment of how the authorities concerned intended to handle a unique situation in Swedish public administration: that responsibility for utilising EC funds meant that the authority’s supervisory and control responsibilities would cover all administration of the funds concerned, including administration at the regional level or administration undertaken by other authorities.

470. The second phase involved assessment of whether the administrative routines and computer systems employed were reliable, safe and effective in practice. Based on the principle of the risk of major errors, the RRV started by looking at the systems which would be paying out grants from the EC Budget first. There was a special focus on routines which affected several authorities. Particular attention was devoted to the question of whether there was a clear line of responsibility for documentation, error reporting and action programmes.

471. In this phase, both the Commission and the ECA started to visit Sweden to survey and examine Swedish administrative solutions. The ECA also prepared its first auditing statement, using the Statement of Assurance (SOA) methodology. There were some discussions inside our organisation about the advantages and disadvantages of this methodology and also concerning the possibility of making statements based on the volume of transactions audited. Our auditing is based on the principle of the risk of major errors. Hence, the RRV does not employ statistical sampling in the same way as the ECA. In our view, the SOA methodology may easily result in devoting excessive auditing resources to areas in which there are no real problems. A combination of the "risk-based and importance-based" method and the SOA methodology may well be highly useful, however, and may lead to more effective and efficient auditing.

472. At about the same time, EAGGF adopted Regulation 1663/95. The Clearance of Account System was developed and Member States had to accredit the organisation in the EAGGF-Guarantee section which was responsible for payments and also prepare a system for certification of the annual accounting documentation submitted by Member States to the Commission. In view of the RRV's comparative advantage in terms of knowledge and experience, RRV was asked whether it could verify the Swedish disbursement unit's description of its administrative routines and systems, and check whether they functioned in the manner intended. Acceptance of assignments from the Swedish Government on a special remuneration basis is part of the RRV's model.

473. The question of whether a national auditing body could take on a certifying body assignment was also raised. The RRV's comparative advantage was even more clear in this area. The unit responsible for payments in the EAGGF-Guarantee section is audited every year. An auditing report is submitted concerning the quality of the information provided in the annual report, security and compliance with legal requirements in implementation, and conclusions are drawn as to whether those responsible have handled their mandate in a satisfactory manner. The RRV did not consider that there were any constitutional obstacles to issuing an audit certificate, on its own responsibility, concerning the accounting information. The Swedish Government appointed the RRV as the certifying body. At the end of January 1997, the RRV issued its first audit certificate in this role.

474. We are now about to enter the third phase. To a limited extent, money has started to be paid from funds other than the agricultural fund. Administrative arrangements are being implemented for the structural, regional and fisheries funds, where the regulatory structure is less developed than in the case of the agricultural guarantee section. Durable, stable relationships are being developed between the Commission's internal control body and the internal audit function in the authorities concerned.

475. These relationships are based on the provisions of the Council Ordinance which states that internal auditing functions must exist at the national level to enable the Community to be assured that the Member State is exerting satisfactory financial control. Co-operation between the Commission's own internal auditors (DG XX) and the internal auditors of the authorities responsible for funds has been formalised in the form of agreements (protocols). At the central level, the Swedish Ministry of Finance prepared and pursued this task in the initial phase. Co-operation agreements are bilateral and voluntary but the ministers of all the Member States have expressed an intention to establish more formalised

co-operation of this nature with representatives of all the Member States. These agreements stipulate full access by the parties to each other's audit reports and documents. Reports from other auditors at the national or Community level which concern the fund in question must be submitted for informational purposes. Agreements also contain guidelines for the overall methods to be used, thus ensuring that the parties should be able to rely on each other's results. In addition, the agreements contain options regarding the implementation of joint audits. The RRV supports the development of the competence of the internal auditors and assesses the quality of their audit plan and the work carried out.

476. Community initiatives are commencing which are new as far as we are concerned and which run counter to the existing administrative structures (for example the Community Initiatives LEADER II and INTEREG). Our capacity to meet the requirements of a secure and appropriate handling of EC Budget payments is open to question in these areas, and this is confirmed by the ECA's latest annual report.

477. In the beginning of 1997, we reported on two government assignments in the EU sphere. We analysed the administrative systems in the Swedish social fund and regional fund areas and checked whether they complied with current standards, both in theory and practice. We also tried to determine what changes would be called for if the Clearance of Account System was applied in these areas.

478. In this phase, we may note that it appears that control activities in a broad sense have still not been finally resolved. Overall control — that is to say internal auditing/supervision and external auditing — is not a co-ordinated function in any case. Auditing is often carried out without regard to experience gained in other control areas nor the results achieved. Hence, the efficiency and effectiveness of control activities may be questioned, and there may be a risk that the overall control apparatus only focuses on areas, organisations and circumstances which are easy to audit, and that mismanagement and irregularities which involve more than one fund at the same time may not be noticed, due to the way in which control operations are structured.

479. Member States administer 85 per cent of expenditure and virtually 100 per cent of the revenues for the Community Budget, while the Commission is responsible for implementation of the Budget. It is absolutely vital to find forms for achieving practical co-operation across national frontiers or fund boundaries, based on mutual respect, mutual interest and sovereignty. Openness is one of the cornerstones in this task. An understanding of national cultural differences and genuine efforts to reduce language barriers are other cornerstones in this context.

6. Conclusions

480. It is important to try to point out certain conclusions which, with the benefit of hindsight, either should have been dealt with in another way or at an earlier stage.

481. These conclusions cover issues which increased the risk of deficiencies in the administration's ability to implement the EC Budget in a safe and secure manner, appropriately and effectively. These issues subsequently tend to give the external auditors a great deal of extra work, and thus may be interesting for our colleagues in central and eastern European countries to study so that they can make use of our experience in their future relations with the Community:

- An important experience is that auditing resources should be deliberately given greater priority prior to accession: first, to achieve a focus on security and appropriateness in the implementation of disbursements from EC funds; and second, to deal with the question of

the effectiveness of the systems at a later stage. It is important not to dilute and split up resources unnecessarily, especially not in the initial stage.

- Since auditing resources are normally fully stretched, special resources should be released at an early stage for measures related to the EC Budget.
- It is important to enumerate the deficiencies in the internal and management controls in public administration at an early stage, with a great degree of clarity and systematically. We should have devoted greater resources to this task. Active steps to see that these deficiencies are swiftly rectified, and the responsibility to rectify various weaknesses, is essential. This facilitates adaptation to and implementation of systems for the EC Budget on the part of the authorities concerned.
- The special features of the regulations and routines which apply in the national administration and their equivalents in the EU must be analysed at an early stage, thus enabling the authorities to point to areas for harmonisation and negotiation. On this basis, the authorities concerned would have had sounder foundations for achieving a control structure accepted by the EU and rooted in our own administrative tradition. It is important that the management control systems built up in individual Member States are based on the administrative culture in the country concerned. At the same time, it must also be possible to present a credible and satisfactory level of control, despite certain differences in matters of detail.
- It is useful to present the national organisation responsible for implementation of the EC Budget, the responsibility and control structure, and the external auditing function in writing and in visual images. This should be carried out both in depth and in a more reader-friendly form, in the principal European languages. This will save a great deal of time when describing the position to officials in the various EU bodies, and it would also have made it easier for our own administrators to understand the overall picture. Jointly translated basic information will improve the quality of the presentations made by officials at various levels in different contexts.
- It is important, at an earlier stage, to obtain a cohesive picture of the administrative requirements and rules which have to be dealt with when joining the EU. It is also important to devote more time to advice and training concerning the administration of EC funds in this context.
- There has been a strongly felt need for a modern economic and administrative dictionary adapted to the needs of government. This would ensure that translator's fully justified professional standards could be matched by the administrator's need to recognise the terminology employed in the regulatory structures, and to comply with their spirit.
- We should have started to build up our own organisation's knowledge and expertise in administrative issues connected with the EC Budget at an earlier stage, although this would have required 3-4 years.

482. We are also starting to focus on new issues which should be discussed by national auditing bodies and which call for a decision:

- The auditor's role in the battle against fraud must be clarified. It is not enough to refer to the fact that, in principle, responsibility lies with the authorities. The risk of irregularities, fraud and corruption must be included in the risk analysis, alongside the mismanagement risk. Auditing must also focus to a greater extent on control of matters which do not, per se, affect

the presentation of a fair picture in the annual report. The risk of political deficiencies, a lack of legitimacy, etc., are extremely serious in activities financed by public taxation.

- Auditing certificates issued by the final beneficiary's auditors are essential in the interest of cost-effectiveness. The question remains, however, of how the quality of these auditors' work can be assured.

483. Interests and uses and the clear definition of communication channels are fundamental and are the keys which guarantee that audits will be efficient and effective.

484. The entire institution must benefit on the effects of co-operation with the SAIs of the European Union.

UNITED KINGDOM
By Cliff Kemball³⁸

38. Clifford Robert Kemball is Audit Manager, National Audit Office of the United Kingdom. He has 33 years government external auditing experience with the National Audit Office, involving most recently Value For Money auditing of UK overseas expenditure (Foreign Office, Overseas Aid, BBC World Service) and International Liaison.

1. Chapter Summary

485. This country paper outlines the government external audit practices in the United Kingdom for accounting for EU funds and the European liaison arrangements. The Comptroller and Auditor General (C&AG) determines his audit objectives for European transactions, and his audit certificates provide assurances that Parliament can rely on the financial statements. The National Audit Office's (NAO's) financial audits ensure that the EU transactions examined comply with European regulations. The Public Accounts Committee (PAC) can, and have, taken evidence on all aspects of United Kingdom financial transactions including Community receipts and payments. Since 1993 the United Kingdom administrative and control systems have continually adapted to EU membership regulations and NAO's audit methodology has been developed and refined in parallel.

486. Value-for-money (VFM) investigations on EU schemes have concentrated on areas of greatest risk and highest expenditure. Limitations exist on the extent to which United Kingdom government departments are accountable for EU schemes where regulations and programme objectives are set by the European Commission. A number of VFM examinations covering the implementation of EU schemes have nevertheless been undertaken, and the United Kingdom has continued to actively pursue the scope for parallel audits with the ECA and our other European counterparts.

487. Liaison arrangements with the ECA are well-established, and the United Kingdom meets its European obligations to ensure an effective audit of Community funds, while avoiding unnecessary duplication of effort. The NAO co-operate with the ECA wherever possible and aim to develop relations where they are mutually beneficial. Regular meetings with our European counterparts ensure the effective co-ordination of ECA visits and the distribution of their findings. Areas for potential co-operation with the ECA and other European SAIs are explored through the Contact Committee and associated working groups. On the basis of the NAO's experience, the impact of EU membership on the governmental audit bodies of prospective Member States may be as follows:

- i. EU membership may necessitate some amendment to state audit legislation, for example by providing for the audit body to co-operate with the ECA — a requirement of the 1975 Treaty.
- ii. The total volume of audit work may not increase markedly. But there will be an additional component of regularity audit in checking compliance with EC legislation.
- iii. Depending on Member State legislation, the ECA may have more extensive rights of access, to ultimate beneficiaries for example, than the national audit body.
- iv. It may be difficult to undertake VFM examinations on matters for which the EU sets the policy and rules. Examinations may more profitably focus on scheme implementation rather than its design.
- v. The national audit body may wish to consider involving itself in parallel audits with other audit bodies and/or the European Court of Auditors on subjects of common interest.
- vi. The national audit body's head will be eligible to participate in the Contact Committee; and it will be asked to nominate a Liaison Officer to act as a contact point with other EU national audit bodies/ECA.
- vii. The audit body will have the opportunity to accompany the ECA on its visits. The extent to which this is done, and the development of relations with the ECA, will need specific consideration.

- viii. The audit body may wish to make periodic reports to its parliament derived from the reports of the ECA on the latter's Statement of Assurance work.
- ix. The audit body may be asked to nominate a candidate to be their country's member of the European Court of Auditors, and to second some of its staff to the ECA.
- x. The audit body may wish to develop contacts with the European Commission on particular issues.
- xi. The resource impact on the audit body of EU membership is likely to be noticeable but not great.

2. Introduction

488. The United Kingdom has been a member of the European Community and subsequently the European Union (EU) since 1973. Over those years, the administrative and control systems in place have been continually adapted to meet the demands of membership and the relevant regulations. Similarly the methodology adopted by the National Audit Office (NAO), in its examination of the accounts of the United Kingdom's central government, has been developed and refined.

489. This paper summarises the United Kingdom central government arrangements for accounting for payments to and receipts from the European Community Budget. In particular, it sets out the impact which United Kingdom membership of the EU has had on the external audit process in four main areas:

- parliamentary oversight of EU expenditure;
- financial audit;
- value for money audit; and
- liaison arrangements.

3. European Community Budget

490. Since the United Kingdom became a member of the EU in 1973, it has contributed to the Budget of the European Community with payments being made from the Consolidated Fund. The United Kingdom also makes payments and collects receipts on behalf of the Community; and claims reimbursement of certain expenditure. The European Community Budget is mainly financed by Member States through a system of "own resources" consisting of:

- agricultural levies collected mainly on trade in agricultural products between the EU and the rest of the world;
- sugar and related levies collected on the production and storage of these commodities;
- customs duties collected under the common external tariff on imports into the EU from the rest of the world; and
- the product of a notional rate of VAT levied on an expenditure base harmonised across Member States.

491. The United Kingdom's 1996 contributions to the Community Budget were estimated at £6,697 million which, after taking account of receipts of £5,094 million, should result in a net contribution of £1,603 million (see Figure 1). The net contribution varies considerably between years and in 1995 the figure was £4 billion.

492. The NAO audit the majority of expenditure in the United Kingdom funded from the European Community Budget. This work is done as part of the Comptroller and Auditor General's (C&AG's) responsibilities to examine and report to the United Kingdom Parliament on the accounts of the United Kingdom departments and agencies through which most of these funds pass. Within the United Kingdom, some 90 per cent of Community expenditure is accounted for through departmental appropriation accounts, with the remainder paid directly by the Commission to various organisations.

Figure 1. United Kingdom's Contributions To And Receipts From The 1996 Community Budget		
Contributions	£m	£m
Agricultural and sugar levies	202	
Customs duties	1,989	
Value Added Tax resources	4,442	
(less abatement)*	(2,412)	
Gross National Product resources	2,444	
Adjustments	32	
Total contributions		6,697
Receipts		
European Agricultural Guidance and Guarantee Fund— Guarantee sector	3,410	
Structural Funds	1,627	
Other receipts	57	
Total receipts		5,094
NET CONTRIBUTION		1,603

Source: European Community Finances: Statement on the 1996 Community Budget — Table 3 (CM 3350)

Note*: The United Kingdom's abatement is the amount by which the United Kingdom's contribution is reduced under the 1984 Fontainebleau agreement.

4. Parliamentary Accountability

493. EC legislation places no specific obligation on the C&AG to audit Community transactions. The C&AG is therefore free to determine his own audit priorities and objectives in this area under the Exchequer and Audit Departments Acts and the National Audit Act 1983 as he does with other nationally raised funds. In the same way, he reports to Parliament on the expenditure of Community funds in the United Kingdom, and on collection of Community revenue, including questions of regularity and value for money.

494. The C&AG audits and reports to the United Kingdom Parliament on a wide range of programmes and projects in the United Kingdom which are financed by, and subject to the regulations of, the European Communities. He does not have the power to examine expenditure under European schemes in other countries of the Community.

495. Parliament's Committee of Public Accounts consider the Comptroller and Auditor General's reports, which are made either on the accounts of the relevant department or, more commonly, in a series of free-standing documents published throughout the year. The Committee of Public Accounts have broad powers to examine appropriation and other accounts laid before Parliament and to send for persons, papers and records. The Committee can therefore take evidence on all of the C&AG's reports, including those covering Community receipts and payments. In a number of their reports, the Committee has recommended that departments press for changes, for example to combat fraud and poor value for money more effectively.

496. The United Kingdom Parliament has shown growing interest in European Community funds in recent years. This interest has arisen in part from the on-going debate about the relationship between the United Kingdom and Europe, but more specifically out of concerns about the way in which the Community Budget is spent. One aspect of this developing interest has been attention to accountability for European expenditure shown by the Committee of Public Accounts, which has issued two recent reports on the subject — its tenth report of 1995-96 on "The Annual Report of the European Court of Auditors and the Statement of Assurance" and its sixth report of 1996-97 on "The Audit of European Community Transactions".

497. The audit function of the C&AG has two elements: the annual certification of the accounts of a wide range of public bodies, and specific examinations of the economy, efficiency and effectiveness with which departments and other public bodies have used their resources.

5. United Kingdom Financial Audit

498. The work of the NAO is designed to give assurance to Parliament that central government money has been spent in the way they intended, and that they can rely on the financial statements provided to them. The NAO certification audit covers regularity aspects, including a review to ensure that EU schemes are properly carried into United Kingdom regulations, and financial control aspects. This audit is undertaken to United Kingdom Auditing Practices Board standards and is designed to ensure that United Kingdom accounts contain no material level of error.

499. In the United Kingdom, the main purpose of financial audit is to allow the C&AG to form an independent opinion on the financial statements. Each audit is planned and performed to obtain sufficient, appropriate evidence on which to base this opinion. The C&AG's opinion also states whether the money has been applied for the purposes intended by Parliament and whether the financial transactions conform to the authorities that govern them. The possible risk of disallowance of previous expenditure by the European Commission, resulting from any irregularity identified by the audit, is recognised by the NAO.

500. As part of its audit of the departmental appropriation accounts, the NAO checks that transactions comply with European regulations; that directives and decisions have been properly incorporated into United Kingdom legislation; and that the amount of grant claimed by the paying agencies and by scheme claimants conforms to it. In some cases, the NAO visits departmental regional offices to examine their monitoring of schemes, as well as to inspect sites, intervention stores and other locations. The NAO

recognises that the volume and complexity of EC legislation is increasing and that careful attention needs to be given to ensuring that their audit work is framed accordingly.

501. The audit methodology adopted by the NAO, in its examination of the accounts of the United Kingdom's central government, has been developed and refined over time. Audit practice is constantly evolving to respond to changes in environment, professional standards and the tools available. The NAO's audit approach is embodied in a financial audit manual which provides guidance on all aspects of financial audit. Further detailed guidance is also provided in a series of field manual modules which are constantly updated to reflect emerging best practice. These manuals are not available beyond the NAO.

502. The NAO approach to financial audit entails examining a sample of financial transactions against a number of specific audit objectives. This work includes ensuring that the amounts paid or received are in accordance with the EC legislation, including relevant EU Directives. In addition to individual transactions, the NAO may comment on the adequacy of controls to ensure compliance with EC regulations. Where payments involve European Regional Development Fund project grants to local authorities and other bodies, the final payment of grant has to be supported by a certificate from the Audit Commission or other external auditors, on which the NAO rely in accordance with the relevant auditing standards.

503. On the contributions to the EU, the NAO makes an assessment of the soundness and adequacy of the accounting systems, checks that the underlying VAT bases are correctly calculated, and carries out re-performance tests on a sample of calculations. On the collection of customs duties and VAT, the NAO adopts broadly the same approach, but places greater emphasis on an examination of the underlying accounting systems and controls.

504. The C&AG's audit opinion provides reasonable assurance that the financial statements are free from material misstatement and irregularity. As materiality is not capable of a mathematical definition and has both quantitative and qualitative aspects, it is subject to considerations of value by nature and context — a professional judgement related to the highest level of error the NAO would expect users of the financial statements to tolerate. Because the audit methodology adopted by the NAO is designed to support the United Kingdom accounts as a whole, the audit conclusions do not relate to any individual schemes.

6. EAGGF

505. Under Commission Regulation (EC) 295/88 of 1 February 1988, each authority and body responsible for funding the European Agricultural Guidance and Guarantee Fund (EAGGF) Guarantee Section payments, which in the United Kingdom is the Intervention Board for Agricultural Produce, is required to forward annually to the Commission a report giving details of the control checks undertaken to ensure that the operations, payments and accounting and administration procedures of the paying agency have been implemented in a proper manner. These reports include statements by the NAO of its approach to the audit of the Community funds.

506. Under Commission Regulation EC 1663/95 of 7 July 1995, the audit and reporting responsibilities of the EAGGF certifying body are set out. In the United Kingdom, the Intervention Board for Agricultural Produce is the co-ordinating body; it and six other agencies are responsible for making payments under EAGGF schemes, and the NAO is the certifying body. The Commission carries out its own audit of the national accounts.

507. From 1996, the Commission gave the co-ordinating bodies responsibility for ensuring that the first stages of the audit of the national accounts were undertaken by the certifying bodies. The Commission requires the certifying bodies to carry out a review of the activities of the paying agencies, produce an audit certificate in respect of each agency and a consolidated audit certificate. In 1996, the NAO successfully tendered for the audit of the United Kingdom's EAGGF accounts as part of these revised arrangements for the clearance of national accounts. This additional responsibility is currently for three years and involves giving the European Commission reasonable assurance that:

- the annual accounts are in accordance with the books and records of the paying agencies;
- the agencies' procedures and operations comply with Community rules, and internal control procedures are operating satisfactorily; and
- the financial interests of the Community are properly protected.

508. The audit arrangements in the other Member States differ. The Swedish *Riksrevisionsverket* is the only other national audit office undertaking this additional certifying responsibility. In other Member States, the certifying bodies consist of external audit firms, internal audit organisations and various other bodies. In the United Kingdom, the NAO has a contractual relationship with the Intervention Board.

7. Value-For-Money Investigations

509. As part of its remit to provide independent information and advice to Parliament, the NAO undertakes value-for-money investigations. The Comptroller and Auditor General's statutory authority to report to Parliament on the economy, efficiency and effectiveness with which central government funds have spent their resources was granted in 1983. NAO's programme of value-for-money investigations tends to concentrate on areas where the use of resources is greatest, where value for money is at risk and on areas which provide examples of good practice or management failures.

510. The adequacy of the use of European Community funds and of the systems for preventing irregularity are of interest to the Public Accounts Committee (PAC) and other parliamentary committees. As it is the European Union which determines the nature of schemes and programmes which will receive European support, it limits the extent to which departments can be held accountable for the achievements of EU schemes or programme objectives. It can therefore be a difficult area in which to undertake value-for-money investigations. However, Member States are responsible for converting regulations into detailed systems, for their implementation and for monitoring and assessing the scheme results. It is therefore in this area that the NAO concentrate their value-for-money studies.

511. In the last twelve years, there have been eleven NAO reports which included significant references to European Community matters. The two most recent reports concerned expenditure under the Common Agricultural Policy (CAP). In December 1995, a report on the Intervention Board for Agricultural Produce (IBAP) examined the action taken to prevent fraud and irregularities in the European Agricultural Guidance and Guarantee Fund (EAGGF) expenditure it administers. In February 1997, a report on the Ministry of Agriculture, Fisheries and Food examined similar issues in respect of farm-based schemes.

512. A report on the Customs and Excise 1995-96 Accounts examined the threats posed by deliberate evasion and fraud and the counter measures being applied. This report focused on the application of controls in accordance with European Union requirements; international co-operation between Member States and the Commission; and the introduction of initiatives to counter Single Market excise smuggling and commercial excise fraud.

513. A report³⁹ published in July 1997 on Environmentally Sensitive Areas — a scheme part funded by the European Union — consider whether the scheme has encouraged beneficial agricultural practices that conserve and enhance the environment. This may prove useful to the European Court of Auditors (ECA) who are planning a study of agricultural environmental issues across all Member States.

8. Parallel/Joint Audits

514. Parallel or co-ordinated audits involve two or more audit offices carrying out examinations in their respective countries on the same subject area. These audits can involve co-operation on matters such as audit approach, methodology and general findings and conclusions. Joint audits involve combined teams from two or more audit offices undertaking an examination together.

515. The opportunities and benefits of carrying out such audits are greater in areas of common interest, particularly in matters involving the effectiveness of the EU on such subjects as agriculture, regional structural payments and overseas aid. A combined effort from a number of audit offices can be expected to emphasise any weaknesses found during an audit and have more impact in promoting the necessary improvements. The benefits of such exercises also include possible cost reductions for the participating audit offices in planning, applying methodology and in verifying findings.

516. The difficulties in undertaking parallel audits should not, however, be underestimated. They include: the identification of the countries willing to participate; identification of a suitable topic; agreement on the timetable for the study (including exchanging detailed information on individual countries' planning and reporting timetables); methods of communication to discuss progress, preliminary findings and conclusions; and agreeing details for the production and publication of reports. Similar, but rather greater difficulties can arise with joint audits. They are likely to be more costly to undertake, involve a heavier liaison burden and may not generate the "added value" of parallel audits. There are, however, potential benefits in undertaking joint audits if the prevailing differences — in terms of audit scope and timing — can be overcome by the participating audit offices. For both parallel and joint audits, a degree of flexibility should be built into the audit programme and timetable to meet the various requirements of the participants. A working group, with the ECA as a member, has been set up to share audit plans and discuss progress on joint audits.

517. The NAO are actively pursuing the scope for joint or parallel audits with the ECA and other European national audit institutions. In 1991, the NAO were involved in a joint audit with the ECA on the examination of "Measures for restructuring the Community fisheries fleet". In 1993, the NAO carried out a parallel audit of programme aid with the Dutch and Swedish audit offices. Recent discussion with the ECA and other EU audit offices suggest there are likely to be further opportunities for co-operation. A brief case-study of a parallel audit involving EU funds is outlined in Figure 2. The participating audit offices have in this case agreed upon a common workplan.

39. This report is entitled "Protecting Environmentally Sensitive Areas". Reference number HC 120 Session 1997-1998; ISBN 0-1-268498-7; published 23 July 1997.

Figure 2. Case-Study Of A Parallel Audit			
Subject:	Arable Area Payments, an examination of the largest of the European-funded agricultural schemes.		
Countries involved:	Dutch, Swedish and United Kingdom audit offices.		
Scheme objectives:	To compensate producers for falling prices and, through set-aside, reduce production across the whole European Union.		
Core audit focus: (for all three countries)	<ul style="list-style-type: none"> • has the Ministry administered the scheme in an effective manner? • is the scheme administered with a minimum of burden on farmers? • has the Ministry taken adequate steps to prevent and detect non-compliance? And 		
(for some countries)	<ul style="list-style-type: none"> • is the implementation of Integrated Administration and Control System in compliance with IACS provisions?. 		
Benefits of parallel audit:	Experience of other countries' practices. Build-up and encouragement of best practice. Comparisons of relative efficiencies.		
Likely difficulties:	Identifying topics for study which meet the objectives of each of the countries involved, including satisfying the varying timing requirements. Dealing with sensitive bilateral information and sharing of data. Ensuring that the indicators of efficiency are truly comparable.		
Timetables:	<i>Country</i>	<i>Study fieldwork.</i>	<i>Report publication</i>
	The Netherlands	June to December 1997	May 1998
	Sweden	April to May 1997	September 1997
	United Kingdom	June to September 1997	December 1997.

9. Liaison Arrangements

9.1. European Court Of Auditors

518. The establishment of the European Court of Auditors under the 1975 Treaty in October 1977, and its enhanced authority and independence under the 1993 Maastricht Treaty, introduced a requirement for the European national audit institutions to liaise. The ECA's audits are based on the examination of records and, where necessary, are performed in member states. The ECA has access to any document or information relating to the financial management of the departments or bodies subject to its examination, and can question any official responsible for revenue or expenditure.

519. The Treaty of Brussels requires the European Court of Auditors to carry out its work in Member States in liaison with the national audit institutions. The Treaty imposes three legal obligations on the national audit institutions to:

- act in liaison with the ECA in carrying out the audit;
- inform the ECA whether the NAO intend to take part in an audit; and
- forward to the ECA, at its request, any documents or information necessary to carry out its task.

520. These obligations aim to ensure the effective audit of Community funds, while avoiding unnecessary duplication of effort and overburdening of the audited body.

521. The NAO act as facilitators for the ECA's visits, but are not responsible for the effectiveness its work. All ECA audit visits to United Kingdom government departments/bodies are notified to the National Audit Office's Liaison Officer who co-ordinates all the arrangements.

522. It is NAO policy to co-operate with the ECA wherever possible and to develop relations where mutually beneficial. The visits provide the NAO with the opportunity to send a member of staff to act as an observer at the ECA's meetings with audit bodies. The NAO's policy is to send a member of staff with the ECA for at least some part of the duration of the visit, or to the ECA's end of audit meeting, unless there are good reasons for not doing so.

523. Under standing arrangement, all the C&AG's reports, Public Accounts Committee reports and associated Treasury Minutes are sent to the ECA. Papers belonging to audited departments are not supplied to the ECA by the NAO as, in principle, it is for the ECA to obtain such information directly. As part of the liaison arrangements, a summary of the NAO's audit work plans are provided to the ECA.

524. Audit arrangements between the ECA and national audit bodies are co-ordinated by a Liaison Officer nominated by each audit body. Liaison Officers' duties involve: meeting regularly with officials of the ECA to discuss general issues and to support the work of the Contact Committee consisting of the heads of all audit bodies (Paragraph 528); providing a first point of contact for officials from both the ECA and the audited departments; co-ordinating the arrangements for visits by the ECA; and distributing the findings of the ECA's audits to the audited department and relevant officers in the NAO. Regular meetings of Liaison Officers are held by the ECA in Luxembourg to discuss matters of mutual interest.

9.2. *Statement Of Assurance*

525. With effect from the 1994 accounts, the Maastricht Treaty required the ECA to provide the European Parliament and the Council with an annual Statement of Assurance (SOA) as to the reliability of the accounts of the Community and the legality and regularity of the underlying transactions. The ECA has discussed with national audit institutions how it might rely on the work of these organisations in order to reduce the amount of work the ECA has to carry out. It has yet to agree on the extent to which it can use the results of other audit bodies or the format in which the results will be reported to the ECA.

526. The first Statement of Assurance and related special report were issued by the ECA in November 1995. The ECA reported that they were unable to provide positive global assurance on the accounts due to the number of errors found in the sample of payment transactions examined. Nevertheless, the Statement should give the United Kingdom Parliament some assurance about the use of European funds in other Member States. The requirement to provide a Statement of Assurance has led to a substantial increase in the number of visits by the ECA to all Member States, including the United Kingdom. Thus the number of missions to the United Kingdom increased from around ten in 1993 to 22 in 1996.

527. The NAO have been keen to co-operate with the ECA in the development of the Statement of Assurance and have provided advice on audit methodology, statistics and have discussed how the ECA can make use of the work undertaken by the NAO on EC transactions within departmental accounts. The C&AG published "The Annual Report of the European Court of Auditors and the Statement of Assurance for 1995" in March 1997. This summarised the main findings in the ECA's report and highlighted the references to the United Kingdom. It stressed the importance of gaining improvements in the Community's financial statements in order to provide more useful information and to enhance the

accountability of the Commission. The ECA has welcomed this development and is likely to encourage other national audit institutions to do something similar.

9.3. *Contact Committee*

528. To assist in developing liaison arrangements with the European Court of Auditors, a Contact Committee has been established to provide a regular channel of communication on EU audit matters. It consists of the heads of the national audit institutions from all fifteen Member States and the President of the European Court of Auditors. The Committee normally meets once a year, in November, to discuss topical issues of concern. However, any member of this Committee can convene a meeting at any time should he or she consider there is a need to discuss matters of importance prior to the annual meeting.

529. These meetings provide an opportunity for the European Court of Auditors to explore areas for potential co-operation with the national audit institutions. They also provide a means for the national audit institutions to share experiences about the audit of European Funds in the Member States. In recent years, the Committee has addressed issues such as the Statement of Assurance, the audit of VAT and common auditing standards.

530. Most of the discussions of the Contact Committee are based on reports submitted to it by ad hoc working groups set up to examine specific issues. Membership of these groups is voluntary. However, the NAO has sent expert representatives to most of them because they provide for the exchange of audit methodologies and other information in a relatively informal manner.

531. The ad hoc working group on auditing standards is in the process of finalising fifteen European implementing guidelines. The NAO recognises the need for guidelines to assist in the implementation of accepted INTOSAI auditing standards. The NAO's continuing policy is, however, to comply with the United Kingdom Auditing Practices Board's Statements of Auditing Standards. They also remain aware of the need to minimise any undue duplication of audit effort in devising differing standards by regional groups. The European guidelines aim to provide the basis for putting accepted auditing standards into practical operation. As yet, none of the guidelines have been operationally tested.

532. Nine guidelines — audit planning; materiality and risk; audit evidence and approach; evaluation of internal control and compliance testing; audit sampling; using the work of other auditors and experts; documentation; reporting; and quality assurance — have been completed and presented to the Contact Committee. The remaining six — analytical procedures; information systems audit; fraud and irregularity; performance audit; audit of non-financial data; and promoting good accounting practice — are in the final stages of agreement. When completed, the working group intends publishing them in a single document in various Community languages. The NAO sees the adoption of a set of common auditing standards as a prerequisite for effective collaboration across all Member States of the Union. Future joint or parallel audits of EU activities should provide opportunities to test these guidelines in practice.

9.4. *Secondment Of NAO Staff*

533. Each Member State's national audit institution is invited to second an auditor to the European Court of Auditors. These Institut de Contrôle Nationale (ICN) posts have no official status and the officers have no specific terms of reference while at the ECA; predominantly they act as audit team leaders. Work is in hand to remove the ambiguities regarding the role of the ICN posts and to prepare formal terms of reference.

534. From time to time, the European Court of Auditors will seek to fill other vacancies with fixed-term secondees from the Member State national audit institutions. In the last eight years, the NAO has provided eighteen staff to the European Court of Auditors and nine staff to the European Commission. Currently, there are six NAO secondees at the ECA and two at the Commission, while a further three have become permanent officials.

9.5. *The Commission*

535. The NAO has had significantly less contact with the European Commission than with the ECA in recent years, but where this has been achieved with the Commission — as in the case of preparing for the investigation into fraud and irregularity against schemes under the Common Agricultural Policy — it has proved valuable. Liaison has grown recently with a number of staff from the Commission visiting the NAO to discuss the Office's approach to value-for-money audit and the possibility of hosting a seminar on combating fraud and irregularity involving the Structural Funds. The aim is to bring together practitioners from relevant organisations to discuss common problems.

10. Resources

536. It is not possible to identify separately the staff effort related solely to European Union expenditure in auditing the appropriation accounts of the United Kingdom departments and agencies through which most EU funds pass. A broad assessment of the resources employed, on all aspect of EU work, including liaison with the European Court of Auditors and dealing with EU policy issues, would suggest that it takes up approximately two per cent of the Office's time. This is broadly in line with the proportion of United Kingdom expenditure provided from the European Community Budget.

11. Conclusions

537. The main conclusions that can be drawn from the impact on the NAO from the United Kingdom's membership of the European Union are:

- i. The NAO reports to the British Parliament, not to the European Parliament. The NAO is not required to carry out investigations designed to give assurance of value for money to the European Parliament.
- ii. The NAO does not audit European Community transactions separately. Instead they are examined where they form part of the audit of United Kingdom departmental accounts. The NAO's financial audit procedures have developed over time and have been refined and enhanced where appropriate.
- iii. Because the materiality and the audit methodology adopted by the NAO is designed to support the United Kingdom accounts, the results do not relate to individual schemes.
- iv. The regularity checks undertaken by the NAO aim to ensure that payments comply with European regulations. The volume and complexity of such legislation is likely to impact on the resources devoted to regularity checks in future.
- v. Accounting methodologies and standards applied to the certification of the national EAGGF accounts may vary significantly between the various certifying bodies. Scope may exist for identifying the significance of any material differences in the approaches adopted by the various Member States.

- vi. It is in the United Kingdom interest that audit by the European Court of Auditors should be effective and therefore the NAO aims to be as co-operative as possible. There are mutual benefits in increasing the level of direct co-operation with the ECA, for example by joining in its United Kingdom missions. Careful consideration needs to be given to the possible benefits to be gained and to the added value obtained from the deployment of additional NAO resources.
- vii. There has been increasing parliamentary interest in Community finance and in the relations between the ECA and the NAO. At the same time, the scope for identifying suitable value-for-money studies, for which United Kingdom departments and agencies are accountable, is likely to remain difficult.
- viii. Opportunity for parallel studies with the ECA have been limited; scope exists for increasing the level of co-operation with the European Court of Auditors and in undertaking more parallel audits in the future.
- ix. The United Kingdom published an annual report on the findings from the ECA's report and its Statement of Assurance.
- x. With the prospect of increased membership of the European Union, in the future there is likely to be a need to keep the size of the liaison working groups to a manageable and efficient level.
- xi. European national audit institutions should continue to stress the importance of improving the Community's financial statements so that they provide more useful information and enhance the accountability of the Commission.

FINANCIAL CONTROL AND AUDIT IN THE EUROPEAN UNION
By Alan Pratley⁴⁰

40. Alan Pratley is since 1990 Deputy Financial Controller of the Commission of the European Communities. He joined the Commission in 1973 and worked in the area of administration and financial control, including periods as Deputy Chef de Cabinet to the Commissioner responsible for Budget, Financial Control and Administration, and as Director of General Administration.

1. Introduction

538. The purpose of financial control and audit in the European Union is to provide the assurance to the taxpayer through the Council of Ministers and the European Parliament that European Union funds are well-managed and spent in accordance with the objectives of the Union and the general and sectoral regulations governing the policies to be pursued. The current Budget of the European Union amounts to some 90 billion ECU. Since the EAGGF-Guarantee Fund (covering the implementation of the Common Agricultural and Fisheries Policy) and the Structural Funds together represent some 80 per cent of the Budget, the importance of co-ordinating financial control and audit between the Commission, the Member States and the European Court of Auditors is self-evident. It is no less necessary in other areas.

2. Financial Control And Audit At Commission Level And Outside The Commission—An Overview

539. Sound financial management in the Commission is based on the internal control in the spending departments, which is provided by the resource directorates or financial management units of the departments; on the internal audit provided by the Directorate-General of Financial Control (DG XX); and on the external audit provided by the European Court of Auditors.

540. Sound financial management outside the Commission is based on the internal control in the national, regional and local public service organisations responsible for spending; on the internal audit provided by specialist units in the national ministries (or by central bodies like the *Inspection Générale des Finances in France*); and on the external audit provided at national, regional or local level.

541. Where European Union funds are spent in Member States, there is necessarily close co-operation between the Commission and the Member State as regards internal control and internal audit. This may be illustrated as follows:

1. For expenditure managed and executed directly by the Community, the internal control is provided by the managing Directorate-General with *ex ante* approval of financial transactions and internal audit provided by the Directorate-General of Financial Control (DG XX). (In the case of aid to countries outside the Union, there is some involvement of the public services of the beneficiary state.)
2. For expenditure co-financed by the European Union, the internal control in the Member State is provided by national, regional or local government services (and by public corporations, universities or the private sector in the case of research), with internal audit by the Directorate-General of Financial Control and Commission services (in conjunction with corresponding internal auditors in the Member State in the case of the Structural Funds and Research).
3. For EAGGF-Guarantee expenditure, financed 100 per cent by the Community but managed by the Member State, internal control is provided by the accredited national agencies in the Member State, with internal audit by a national control body, by the Directorate-General of Financial Control and by the authorising Directorate-General.

542. The external audit is provided in all cases by the European Court of Auditors, in collaboration as appropriate with the external audit bodies of the Member States, and to a limited extent in informal collaboration with the external audit bodies of beneficiary States.

543. Given its formal responsibility for the execution of the European Union Budget, the Commission has to be able to show that there is adequate internal control at all levels and that it provides or uses an appropriate internal audit function both for direct expenditure and where Community funds are disbursed and managed by Member States or agencies. In the latter case, it is essential to ensure an adequate and uniform level of management and control in all Member States.

3. Financial Control And Audit Within The European Commission

544. Within the European Commission, financial control and audit are organised as follows:

1. Expenditure commitments are authorised by the Commission itself for large programmes and actions. For subsidiary actions and smaller amounts, the Commission delegates the authorisation of expenditure to Directors-General of operational departments and designated grades within them.
2. The Director-General is responsible for ensuring adequate internal control through a directorate (or unit) responsible for the management of both human and financial resources and directly accountable to him. The directorate (or unit) acts as a counterweight to the operational directorates and units and is responsible for checking that internal control is in place and functioning and that there is an appropriate evaluation function in place to provide for *ex ante*, ongoing and *ex post* evaluation. The resources directorate is also responsible for on-the-spot controls of direct expenditure related to actions carried out by organisations situated outside the Commission.
3. The Directorate-General of Financial Control audits internal control of Directorates-General by *ex ante* checking, where appropriate on a sampling basis, of all receipts (including recovery of undue expenditure) and expenditure (commitments, payments) and by internal audit on a systematic basis at appropriate intervals of management and control systems in Directorates-General. Internal audit covers financial audits, accounting audits, management audits and performance audits. The *ex ante* control and internal audit functions are modulated on the basis of risk analysis; weak systems and performance will call for intensified control and audit.
4. The financial management structure of the Commission is completed by the Accountant, who is responsible for the accounting system and the execution of payments.

4. Financial Control And Audit In Member States

545. As indicated at the outset, some 80 per cent of the European Union Budget is managed and spent in the Member States. The two main areas are the Common Agricultural (including Fisheries) Policy (the EAGGF-Guarantee Fund), accounting for some 45 per cent of the European Union Budget, and the Structural and Cohesion Funds, accounting for some 35 per cent of the Budget.

4.1 EAGGF-Guarantee Fund

546. In the case of the EAGGF-Guarantee Fund, the Commission finances actions at 100 per cent and distributes an advance payment to each Member State each month. The Member State distributes the money to the various beneficiaries through paying agencies, which are either part of or supervised by the responsible ministries. The paying agencies administer the funds in accordance with the provisions of Council regulations and present yearly accounts to the Commission for approval some six months after the end of the financial year (15 October). Council regulations lay down detailed rules for the organisation and accreditation of paying agencies, for accounting procedures and for the frequency and intensity of controls for the different actions. There are also detailed regulatory provisions covering the audit certification to be produced with the accounts, and the bodies to be put in place in each Member State to co-ordinate the work of paying agencies and other organisations involved in the operations of the EAGGF-Guarantee Fund.

547. In addition to the clearance of the actual accounts, the European Commission is responsible for checking/auditing the systems of management and control in each Member State and, where weaknesses are identified, to apply corrections (generally deductions) to the amounts claimed. These corrections, which may be imposed during a period of up to two years following the end of the financial year, are based on failure to maintain satisfactory systems, including the carrying out of the prescribed frequency and intensity of controls.

548. The internal auditing is carried out by the Directorate-General of Agriculture, the Directorate-General of Fisheries and the Directorate-General of Financial Control. The external auditing is carried out by the European Court of Auditors.

4.2 Structural And Cohesion Funds

549. Unlike the EAGGF-Guarantee Fund, where the European Union provides 100 per cent financing, the Structural Funds provide for co-financing by the European Union and are conceived as a partnership, using the existing management and control systems of the Member States. The Member States are required to ensure that their systems enable operations to be completed successfully and that action is taken to prevent irregularities and recover unjustified expenditure. The Commission itself, after consulting the Member State, may reduce, suspend or cancel assistance in respect of an operation or measure where there has been irregularity or significant change in the nature or conditions for its implementation without the Commission's prior approval.

550. Under the Structural Fund regulations, the Member State is required to provide the Commission with a description of the management and control systems established. It shall also keep and make available to the Commission any appropriate national control reports on the measures included in the programmes or other operations. It is also required to designate authorities (usually ministries) to certify the validity of payment requests.

551. The Commission services (Directorates-General of Social Affairs, Agriculture, Fisheries, Regional Development and Financial Control) provide the internal audit function as provided for by the Structural Fund regulations, which authorise them to carry out on-the-spot checks in respect of operations financed by the Structural Funds and of the national management and control systems. The Commission services may also require the Member State to carry out on-the-spot checks to verify the regularity of payment requests.

552. The European Court of Auditors is responsible for the external audit function in relation to the Structural Funds.

4.3 Community Revenue

553. Community own resources consist of customs and agricultural duties, the resource based on VAT, and a complementary resource based on GNP. As regards traditional own resources (customs and agricultural duties), they are collected from economic agents by Member States according to their own national procedures, adjusted where necessary to comply with Community own resources regulations. Member States have their own control and audit systems. Furthermore, the Commission services may also require Member States to carry out on-the-spot checks, participate in some of the regular checks conducted by national authorities, and may on their own initiative carry out on-the-spot checks in association with national officials.

554. As regards the own resource based on VAT, controls and audits on VAT taxable persons are made by national authorities. The Commission services check the procedures and the actual calculations made by Member States to determine the amount made available to the Commission pursuant to this resource, as well as to the GNP resource.

5. Co-Ordination Of Financial Control And Audit Between The Commission And The Member States

555. Given the extensive nature of the operations of the Common Agricultural and Fisheries Policy (EAGGF-Guarantee Fund) and of the Structural Funds, it is essential to ensure that the limited financial control and audit resources available to the Commission and those of the Member States should be used in the most efficient possible way. The Structural Fund regulations require the Commission to ensure that any checks carried out are performed in a co-ordinated manner so as to avoid repeating checks in respect of the same subject matter during the same period.

556. In 1979, the Commission made the Directorate-General of Financial Control responsible for co-ordinating the on-the-spot control missions (verifications and audits) carried out by Commission services in the Member States.

557. To this end, the Directorate-General of Financial Control has launched two actions in close consultation with the Directorates-General responsible for the management of the Common Agricultural and Fisheries Policy (EAGGF-Guarantee Fund) and the Structural Funds.

558. In the case of the Common Agricultural and Fisheries Policy, there is already co-ordination between the Directorates-General of Agriculture and Fisheries and Financial Control to avoid overlap in their control and audit programmes and to ensure that the audit effort is concentrated on areas of greatest risk. In order to improve co-ordination further in the Member States, meetings are held twice a year by Commission services with representatives of the paying agencies of the Member States. The aim is to move towards agreed and consolidated programmes being available from the beginning of the annual control and audit exercise.

559. In the Structural Funds context, the work of co-ordination is even further advanced. The Directorate-General of Financial Control has signed protocols or administrative arrangements with eight Member States and negotiations are well advanced with the other Member States. These protocols or administrative arrangements provide for:

- the alignment of audit methodology;
- agreed and consolidated annual audit programmes and the exchange of completed reports;
- the provision of appropriate data for the audit trail.

560. The protocols are signed by the Financial Controller for the Commission and by the central control authority (e.g. *Inspection Générale des Finances* in France, *Intervención General* in Spain) for the Member State where this function exists, or by the head of the relevant ministry, together with his head of internal audit in Member States where other control structures exist. The audit methodology used by the Commission for systems audits is an integral part of the protocol, supplemented as necessary by the respective national control methodology and a common methodology is used for audits of particular programmes or actions. Audits are undertaken separately or jointly by the Member State control bodies and the Commission services. Control reports are exchanged and, where possible, the national control authorities summarise the main findings from audit bodies at regional and local level.

561. Co-ordination meetings are normally held twice a year between the Commission and the Member State control authorities, covering all the Funds. In the early autumn, the Directorate-General for Financial Control (DG XX) sends to Member States the indicative on-the-spot audit programmes of the Commission services for the following year, and invites Member State control authorities to submit their own indicative programmes. The co-ordination meeting is then held for which the Commission prepares a summary of the findings in relation to each Fund in the Member State, drawn from the reports of the Commission services, of the European Court of Auditors and of the national control authorities. Against this background and any other data which can contribute to the overall risk analysis, the meeting then examines the indicative programmes in order to eliminate duplication or overlap and draw up a consolidated programme which takes account of the available risk analysis. The European Court of Auditors, which receives the material examined at the meeting including the consolidated programme, also draws up an indicative programme for the following year, which can take account of the agreed and consolidated programme. A second co-ordination meeting is held in June-July to review the implementation of the consolidated programme and make any necessary adjustments.

562. The third element of the protocols—the audit trail—flows from the organisation of management and control in each Member State. Under the Structural Fund regulations, each Member State is required to provide a description of its management and control systems. The Commission is using consultants to construct an overall model based on the descriptions supplied after verification with the Member States, so that possible gaps or incoherencies can be corrected. The resulting audit trail will show how the payment claims are established. It will also enable national and EU auditors to check that EU funds are reaching beneficiaries within a reasonable period and that it is possible to reconcile the payment claims presented to the Commission with actual expenditure made by the ultimate beneficiary or at regional or national levels. A clear audit trail also facilitates the verification by the auditors that viable legality and regularity controls are in place and functioning satisfactorily.

6. Financial Control And Audit Of Other Areas Of Expenditure And Of Receipts

563. The other areas of expenditure covered by the Commission concern direct expenditure funded and managed by the Commission and may be summarised as follows:

Internal policies including training, social and employment policy, energy, consumer protection.	2.1%
Research and technological development.	3.8%
Administrative expenditure.	4.7%
External action.	6.5%

564. As indicated under section 3, financial management is the responsibility of the authorising officer (Commission, Directors-General and designated officials), the Financial Controller and the Accountant. Operations are not confined, however, to the Commission. Direct expenditure is channelled through grants, service and supply contracts to administer programmes and actions taking place within and outside the Union in close consultation with Member States and beneficiary countries. In recognition of the geographical spread of these activities, the Financial Regulation provides for the Commission services, notably the Financial Controller, to carry out on-the-spot checks on the use of EU funds. Beneficiaries of EU subsidies and grants are required to accept the verification of the use of these funds by Commission services and the European Court of Auditors.

565. The co-ordination of financial control and audit with Member State authorities is well-developed in relation to the collection of own resources, i.e. the receipts from Member States which ensure that the Budget is balanced. The Commission discusses with Member States usually twice a year the control programmes, as well as the main results of its audits, in the context of an advisory committee of Member States and Commission experts. An audit sub-group has also been set up to exchange relevant audit information and practices. Co-ordination is also well-developed in the area of research grants which are intended to complement national research programmes.

566. Outside the Community, EU funds are used to further its policy aims in the Third World and in the countries of Central and Eastern Europe, many of which are candidates for accession to the Union.

567. The major contribution to the Third World is made through the European Development Fund (+/— 1.5 billion ECU a year), which is managed separately from the EU Budget by Commission services, in partnership with third world countries in the framework of the Lomé Convention. The financial control and audit procedures of the Commission are applied to these operations.

568. The Third World also benefits from EU funding from the main budget for projects managed by UN agencies. In accordance with the requirements of the Financial Regulation, Commission services and the European Court of Auditors verify the use of EU funds in these operations both through access to the relevant financial information and records and through on-the-spot visits.

6.1 Eastern And Central European Countries

569. The EU actions in relation to the countries of Eastern and Central Europe are channelled through the TACIS and Phare Programmes. The TACIS Programme, covering Russia and the countries of the former USSR, is administered from Brussels in contact with EU delegations or TACIS offices in the countries concerned. The Phare Programme covers projects in the Central European Countries (CEC), which are managed from Brussels, working through EU delegations in these countries and project management units located in central ministries. The present paper concentrates on the operation of the Phare programmes in the countries applying for membership of the European Union and on the conclusions to be drawn from experience to date as seen from the viewpoint of the Directorate-General of

Financial Control (DG XX) and the other Commission services, notably DG I and DG IA. The conclusions are based on the day-to-day work of Financial Control on the files dealt with in Brussels and on audit missions by DG XX to the countries concerned, including fact-finding missions and seminars.

6.2 Central European Countries (CEC)

570. The CEC have had to evolve from a centralised state system in which the public administration in general and financial control bodies (if they existed) could not function independently. There was therefore no experience of modern “project administration” including public procurement with contracts awarded through tendering procedures. At the same time, these countries had to adjust to the destabilising impact of the introduction of free market conditions.

571. The Commission has tried from the outset to use the Phare Programme as part of a learning process for the CEC administrations. In addition to the importation of project management expertise through largely western consultants, Phare has set up a network of project management units (PMUs). These PMUs have been implanted within the existing administrative structure, normally in the relevant central ministry. The PMU has been headed by a senior ministry official and staffed by personnel from the ministry, supplemented by expatriate experts on secondment by way of contracts between the Commission and various EU consultancy firms. It was intended that in this way expertise would be acquired by national officials “on the job”, with a view to the ministry itself being able to take over the management and control of projects in the way that EU Member State ministries manage and control Structural Fund projects.

572. There is still some way to go in achieving the objective of making CEC public administrations able to manage and control EU funded projects. The following problems have been identified:

- the transfer of expertise from consultants to national officials has not been as complete and effective as intended and there is pressure from ministries to extend external consultant contracts;
- the unfavourable market conditions for the recruitment of highly qualified public officials compared with the inflated salaries of the private sector, which has led to the loss of ex-PMU staff to the private sector;
- the measures taken by some CEC States to counter the trend noted in the second point above either by transferring the management of Phare projects to private “foundations” often in the same ministry and paying private sector salaries, or by “topping up” the public administration salaries of national officials administering Phare projects;
- the difficulty in staffing PMUs in those countries which do not wish to use measures such as those described in the third point above.

7. Internal Control, Internal Audit, External Audit In Central European Countries

573. Since the reform process in CEC began in the early 90’s, budgetary control facilities and institutions have been set up in most countries. There is, however, no common concept of internal control, internal audit and external audit in CEC. The “fact-finding missions” and the seminars organised by DG XX in these countries have shown that there is neither the model of a financial controller carrying out ex ante control of transactions with a centralised internal audit function as in a number of EU Member States, nor the northern European concept of a self-regulating financial management system in each

ministry based on strict rules of budgetary execution and accounting, reporting to the Parliament and supervised by the Finance Ministry. Most CEC have an external audit function (Supreme Audit Institution) on the lines of a Court of Auditors or National Audit Office, reporting to the Parliament in some cases. In some countries the Supreme Audit Institution may combine its external audit function with the ex ante control of certain expenditure. The notion of the independence of the external auditor is not firmly established in all CEC and in the early years of the reform the external audit function was exercised in some cases by a control ministry forming part of the government.

574. Following contacts with DG XX and the European Court of Auditors, a number of CEC have expressed interest in adopting an institutional approach and methodology of the control of public funds, similar to those in the European Union and its Member States. The most notable example is Hungary, which has set up an internal audit office at government level (the Government Control Office), initially under the Ministry of Finance, now reporting directly to the Prime Minister. Its mandate is to follow the execution of the State budget and to ensure that the principles of sound financial management are properly respected. Hungary has also set up a "classic" external control or supreme audit institution, reporting independently to Parliament and called the State Audit Office.

575. The situation is much less clear and organised in other CEC, although there is a general readiness to use the models developed in the European Union in order to be able to deal effectively with EU requirements and aid schemes after accession. There is understanding for the principle enshrined in Article 209(a) of the EU Treaty that Member States will take the same care in administering EU funds to combat fraud as in the administration of the national budget.

576. DG XX/Financial Control is exploring the possibilities of practical co-operation with financial control and audit bodies in the CEC. The Hungarian Government Control Office has already carried out controls on Phare Programmes and is interested in developing a framework, in co-operation with DG XX, to develop controls in a structured manner, drawing on the experience of control co-ordination between the Commission and the Member States in the Structural Fund context. In the run-up to accession, the financial control and audit of the Phare projects can provide the preparation for the internal control and internal audit structures which will be needed after accession. There is, moreover, provision in the Phare funds for institution building projects and the appropriate technical assistance.

577. The ongoing objective must be to encourage the CEC to develop effective internal controls within ministries at central, regional and local level, so that there is proper accountability for the management of funds and the execution of projects. The internal audit function in each ministry will need to be developed from scratch in most countries, with a clear remit to ensure that the internal controls are in place and functioning effectively. The internal audit function, while independent of the external control, should be appropriately synchronised with it so that the external auditor can use the work of the internal auditor. Independence is a key requirement for both internal and external audit, with the latter reporting to Parliament. The European Union can contribute effectively to this process, not only by providing advice, technical assistance and example, but by offering clear models for public service institutions which the CEC can adapt to their particular traditions and circumstances.

Appendix 1. Budget Procedures

A. Summary Of EC Budget Procedures

578. There are three main elements to the Community's budgetary procedures.

579. First, the Own Resources (OR) ceiling which sets an absolute upper limit to the revenue which the EC may raise from Member States. This will be 1.27 per cent of Community GNP from 1999. Since the Community Budget must balance (i.e. may not borrow), the ceiling constitutes an upper limit to how much may be spent (subject to some minor miscellaneous revenue items). The OR ceiling is set out in the Own Resources Decision, changes to which must be agreed unanimously by Member States in the Council and must be ratified by Member States by a procedure similar to the ratification of Treaty changes (i.e. requiring the approval of national Parliaments in most Member States).

580. Second, the medium term expenditure plans known as the Financial Perspectives. These set out spending profiles for the main categories of expenditure for a 5/7 year period (most recently for the period 1993-1999 agreed at the Edinburgh European Council in December 1992). The Financial Perspectives are based on an Inter Institutional Agreement between Council, Commission and European Parliament rather than on a formal legal instrument, and do not have the quasi-Treaty status of the Own Resources ceiling.

581. The present Financial Perspective ends in 1999. The expectation is that a further Financial Perspective will be agreed, but there is no legal requirement for this.

582. The present Financial Perspective was agreed by unanimity by the European Council and may be amended by qualified majority voting in the Council and with the agreement of the European Parliament (but always within the OR ceiling).

583. Third, the annual Community Budget. This is the legal instrument which authorises revenue and expenditure for the year in question. The Budget must by Treaty be affordable within the OR ceiling, and under the Inter Instrumental Agreement must be affordable within the Financial Perspective.

584. The annual Budget procedure is complicated, involving a "navette" (shuttle) between the Council and the European Parliament.

585. In brief:

1. the Commission prepares its Preliminary Draft Budget (PDB) in May of the preceding year;
2. the Council holds its First Reading at a Budget Council in July to adopt the Draft Budget (DB). This follows discussions between the Presidency, the Commission and the Parliament (the triologue) and detailed preparation by officials in the Council's Budget Committee (normally staffed by Finance/Budget Ministry officials seconded to Permanent Representatives);

3. the European Parliament holds its First Reading of the Draft Budget in October, amends the Draft Budget and returns it to the Council;
4. the Budget Council holds its Second Reading in November, and then returns the Draft Budget to Parliament;
5. the Parliament adopts the final, or Adopted Budget, usually in December.

586. During these exchanges, the basic principle is that the Council has the last word on “obligatory” expenditure (the vast bulk of which is on agriculture) and the Parliament has the last word on “non-obligatory” expenditure (most expenditure other than agriculture).

587. The detailed procedures and rules are complicated. New Member States need to acquire a good working knowledge of these.

588. Finally, expenditure from the Community Budget must have a legal base, i.e. there must be Community legislation which authorises the policy on which money is to be spent. An entry in the Community Budget does not of itself authorise expenditure in the absence of a legal base.

B. Study On Budgetary Rules And Practices In The Member States

589. The Directorate General XIX is currently conducting a study in co-operation with the International Institute of Administrative Sciences on “Budgetary Rules and Practices in the Member States”. The study, to be completed in September 1997, will among other things give an oversight of procedures used and budget principles applied in the Member countries. Contact persons are Jean-Pierre Baché, Head of Unit, Directorate General XIX, Budgets, and Catherine Bourtembourg, Deputy Director General, IIAS.

Appendix 2. The Clearance Of Accounts Process

590. Expenditure under the agricultural schemes is subject to regulatory provisions which require expenditure to be made according to Community rules within the framework of the common organisation of the markets. To enable the Commission to ensure the provisions are met, the Commission required Member States to introduce new arrangements from the 1996 Accounting year. These were:

- all Member States formally to accredit paying agencies responsible for administering EAGGF schemes, subject to administrative and control criteria;
- where more than one paying agency is accredited, a Co-ordinating Body to be appointed to act as representative of the Member State for distributing Commission texts, promoting harmonised application of scheme implementation, sending to the Commission information stipulated in regulations and ensuring that all accounting information required for statistical and control purposes is held at the Commission's disposal. (The Co-ordinating Body in the United Kingdom is the Intervention Board);
- an independent certifying body to be appointed by each Member State to audit and provide a certificate in respect of the completeness and accuracy of the EAGGF Accounts and compliance with paying agency criteria. (The National Audit Office is the independent certifying body in the United Kingdom).

591. The annual Clearance of Accounts procedure is split into two parts. These are Financial (on the basis of the Accounts and supporting Certificate sent by Member States) and Compliance (based on on-the-spot visits by Commission auditors to check compliance with scheme regulatory requirements).

592. Where a Compliance audit reveals a weakness in procedures, the Commission will make proposals to refuse (disallow) part of the scheme expenditure, reflecting the level of risk to which they consider deficiencies have placed Community funds. Disallowance may not involve expenditure effected prior to twenty four months preceding the Commission's formal advice of its findings. The results of the audit and any resulting disallowance will be the subject of full discussions with the Commission prior to issue of the formal advice. Member States can then appeal to a Conciliation Body whose function is to reconcile the divergent positions of the Commission and the Member State concerned.

593. The financial consequences of Compliance audits will be included in the Financial decision which is to be taken by 30 April of the following accounting year. The Commission's published Decision specifies the amounts recognised for EAGGF financing. These sums include accounting adjustments and corrections, some of which may be to the credit of the Member State. The net amount disallowed is required to be refunded to the Commission. A Commission Decision can be overturned only by a successful challenge to the European Court of Justice, which must be mounted within two months of publication or of any prior formal notification.

594. [In the United Kingdom the financial consequences result in a charge on the Exchequer.]

Appendix 3. List Of Useful Terms

***A priori* audit** See *ex ante* control.

***A posteriori* audit** See *ex post* control.

Accountability A key concept in modern management theory and practice. It means that managers are held responsible for carrying out a defined set of duties or tasks, and for conforming with rules and standards applicable to their posts. The person or body to which the manager must report and answer for his or her actions is made explicit and he or she may be rewarded for good performance or suffer the consequences of inadequate performance. A manager of an organisational unit may also be held accountable for the actions of subordinate staff.

Governments introducing reforms in public management have generally tried to delegate greater flexibility and autonomy to managers as a means of improving efficiency and effectiveness of their operations. Since this gives the manager greater power to make decisions, the reforms have included much greater emphasis on accountability as a means of balancing and checking his exercise of that power. In relation to work carried out by government ministries and agencies, accountability may be:

- **internal**, to a higher level of management, in which managers are assessed on a regular basis on the way in which they have carried out the tasks set out in their job description, with pay increases and/or promotion prospects frequently dependent on the outcome of such assessments (performance appraisal);
- **external**, to parliament, the public or central agencies such as the supreme audit institution (SAI), for their own performance (and, in the case of senior officials, for the performance of the organisation which they manage).

Accounting controls Those procedures and documentation concerned with safeguarding of assets, the conduct and recording of financial transactions and the reliability of financial records. They are frequently based on standards issued by the Ministry of Finance or the SAI to ensure comparability of accounting practices across all ministries and conformity with national and/or international conventions. See also *Control* (1).

Accruals account	A part of the accounting records which records liabilities. For example, if an organisation pays ECU 100 000 annually in arrears at 30 June for services received, by 31 December it has therefore received 50 per cent of those services for no payment and should make an accrual for a liability of ECU 50 000 at 31 December.
Administrative controls	<p>Refer to non-financial procedures and records of ministries which ensure compliance with rules governing activities such as:</p> <ul style="list-style-type: none"> • the appointment, promotion and disciplining of personnel; • public procurement; • equal opportunities for minority groups; • the handling of correspondence; • travel and entertainment, etc. See also <i>Control</i> (1).
Appropriation accounts	Have a wide variety of uses in practice, but may refer to funds separately identified by an organisation for specific purposes. For example, a government may establish an appropriation account to monitor and record payments to private consultants.
Audit	<p>May be carried out to satisfy the requirements of management (internal audit), or by the SAI, or any other independent auditor, to meet statutory obligations (external audit). A particular task of internal audit is to monitor management control systems and report to senior management on weaknesses and recommend improvements. The scope of audits varies widely and includes:</p> <ul style="list-style-type: none"> • financial audits, covering the examination and reporting on financial statements, and the examination of the accounting systems upon which those statements are based; • compliance or regularity audits, which examine legal and administrative compliance, the probity and propriety of administration, financial systems and systems of management control; and • performance audit/value for money audits, which assess the management and operational performance (economy, efficiency and effectiveness) of public programmes, particular ministries and agencies in using financial, staffing and other resources in meeting their objectives. See also <i>Control</i> (2).
Audit evidence	The evidence gathered by the auditor as part of the audit procedures.
Audit objectives	Define intended audit accomplishments.

Audit report	Refers to the report of the auditor made once the audit work has been carried out. For example, an auditor's report on an organisation's financial statements will set out the results of the auditor's work in connection with the financial statements.
Audit risk	Refers to the risk that the procedures carried out by the auditor will not detect matters which, if known, would require the auditor's report to be altered.
Audit sampling	Refers to where the procedures carried out by an auditor are on a sample of an underlying population, relevant to the audit work, rather than the whole of that population.
Auditors certificate	Refers to the report of the auditor made once the audit work has been carried out. For example, an auditor's report attached to an organisation's financial statements may be referred to as the auditor's certificate on those financial statements.
Authorisation (financial)	Implies that the authorising authority has verified and validated that the activity or transaction conforms with established policies and procedures. (300.03.2a).
Budgeting	Refers to the process whereby an organisation will plan for its future financial activities.
Central agencies	Those organisations in the executive branch that co-ordinate the activities of, and provide guidance to the operating ministries and agencies. Practice vary widely from country to country, but central agencies are generally regarded as including: <ul style="list-style-type: none"> • the Ministry of Finance; • the Cabinet Office, or the ministry assisting the Prime Minister or the Council of Ministers in the development and co-ordination of policy; • the ministry or agency responsible for developing and co-ordinating policies in relation to human resource management within the public sector; • the Supreme Audit Institution; and • the Ministry of Foreign Affairs, in certain areas of work such as policy on European integration.
Clearance of Accounts	See Appendix 2 on <i>The Clearance of Accounts Process</i>
Community Structural Frameworks	These are the EAGGF-Guidance Section, FIFG, ERDF and ESF.

Consolidated accounts	Those accounts which are drawn up to reflect the affairs of a group of entities. For example, a ministry or holding company with many different operating agencies subsidiary companies may prepare consolidated accounts reflecting the affairs of the organisation as a whole, as well as accounts for each operating agency/subsidiary.
Control, controls	There are two meanings relevant to management and administration: <ol style="list-style-type: none"> 1. mechanisms and means for guidance, self-regulation, or restraint, intended to prevent mishap, as in a pilot controlling an aircraft. Many languages do not have words directly equivalent to this meaning of “control”. In some countries, for example the Netherlands, the English word is borrowed and used to convey this meaning of control; and 2. to check, verify, audit or to keep a copy of the accounts.
Corruption	There are many different definitions of the concept. One is the, “active or passive misuse of the powers of Public officials (appointed or elected) for private financial or other benefits”.
Due professional care	Calls for the application of the care and skill expected of a reasonably prudent and competent auditor in similar circumstances. Due professional care is exercised when audits are carried out in accordance with standards set for the profession.
Economy, efficiency and effectiveness:	<ul style="list-style-type: none"> • Economy means acquiring the necessary resources (finance, staff, buildings, equipment, etc.) to carry out an activity at the least cost. • Efficiency means achieving maximum output from a given level of resources used to carry out an activity. • Effectiveness means the extent to which the activity's stated objectives have been met.
<i>Ex ante</i> control	The auditor is involved in authorising public expenditure. Payment orders and supporting documentation received are checked whether the transactions have been properly authorised, are legal and regular, and whether there are sufficient provisions in the budget.
<i>Ex post</i> control	At least three types. Those SAIs with a judicial function examine and pass judgement on the records of those individuals who have personal responsibility for the use of public funds. Financial audit, including the examination of documentation relating to a series of transactions, allows the SAI to report on the state accounts and provides the basis for the legislature to give some form of discharge or opinion. Performance audit, focusing on particular aspects of public expenditure, addresses wider issues of economy, efficiency and effectiveness ⁴¹ .

41. *State Audit in the European Union*, The National Audit Office, United Kingdom, 1996.

External auditors	Refers to the auditors of an organisation which are not under the control of the organisation and may not report to objectives set by the organisation. External auditors are often distinguished from internal auditors.
Financial control	<i>See Management Control.</i>
Financial management	Covers the legal and administrative systems and procedures put in place to permit government ministries and agencies to conduct their activities so as to ensure correct usage of public funds which meets defined standards of probity and regularity. These activities include the raising of revenue, the management and control of public expenditure and financial accounting and reporting, and, in some cases, asset management.
Financial statement	The accounts drawn up by an organisation to report its financial affairs. Financial statements are often prepared under regulations governing matters such as their content and publication.
Financial statement assertion	An assertion relating to a set of financial statements which may be considered by an auditor as part of the audit procedures. For example, an assertion may be made that the financial statements reflect a complete record of all of the financial transactions carried out by an organisation in the period, and an auditor may carry out procedures to test that assertion.
Findings	Pertinent statements of fact. Audit findings emerge by a process of comparing what should be with what is.
Fraud	<p>The severest form of an irregularity. The term fraud is defined in the Convention on the protection of the European Communities' financial interest decided the 26 July 1995 (OJ No. C316, 27.11.1995). The Convention is drawn up in accordance with the rules for the EU third pillar as the rules concerns penal issues (the regulation mentioned above concerns administrative measures and sanctions and are therefor drawn up under the rules of the first pillar).</p> <p>The definition of fraud affecting the EU-budget (given in Paragraph 1 of Article 1 of the Convention) is quite lengthy, the core is that it needs intentional act or omission to have an irregularity defined as a fraud and therefore punishable by Court proceedings (all other acts can therefore only be sanctioned through administrative measures as fines and denial of further funding, etc.) states:</p> <p>For the purposes of this Convention, fraud affecting the European Communities' financial interests shall consist of:</p> <p>(a) in respect of expenditure, any intentional act or omission relating to:</p> <ul style="list-style-type: none"> - the use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the misappropriation or wrongful retention of funds from the general budget of the European Communities or budgets managed by, or on behalf of, the European Communities;

- non-disclosure of information in violation of a specific obligation, with the same effect;
 - the misapplication of such funds for purposes other than those for which they were originally granted.
- (b) in respect of revenue, any intentional act or omission relating to:
- the use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the illegal diminution of the resources of the general budget of the European Communities or budgets managed by, or on behalf of, the European Communities;
 - non-disclosure of information in violation of a specific obligation, with the same effect;
 - misapplication of a legally obtained benefit, with the same effect.

Going Concern

Refers to the ability of an organisation to pay its debts as they fall due. An organisation which is able to do so is a going concern. One of the key assumptions underlying the general preparation of financial statements is that they are prepared on the basis that the organisation is a going concern.

Good administrative management

For example: Financial Control has all the necessary information at its disposal to enable it to carry out its subsequent checks from the outset and can freely perform the audit tasks provided for in the Regulations.

Good management of funds

For example:

The expenditure financed by the Community is actual and legitimate.

The initiatives financed by the Community are conducted in accordance with the regulations; measures are taken to prevent and pursue any irregularities, and to recover any amounts lost as a result of an irregularity or negligence.

The EC contribution is accompanied by a real national contribution, according to the percentages stipulated in the decision to grant assistance.

The timetable for the release of funds by the Commission does not differ greatly from that of spending by the managing body.

Good operational management	<p>For example:</p> <p>Operations form part of a Community Support Framework (CSF). They are consistent in respect of each other.</p> <p>The choice of operation is based on a satisfactory <i>ex ante</i> assessment.</p> <p>The decision to commit a further instalment of a particular programme is based on suitable annual monitoring.</p> <p>An ex post assessment serves to gauge the socio-economic impact of the operation and is used at a later date.</p> <p>The financing plans for the operations are sufficiently detailed. They refer to the indicative financing plan set out in the CSF.</p>
Independence/ Independent auditor	Refers to an auditor who carries out audit work freely and objectively.
Internal auditing	An independent appraisal function established within an organisation.
Internal control	<i>See Management control.</i>
Irregularities	<p>Defined in Article 1, Paragraph 2 in the horizontal Council regulation on the protection of the Communities' financial interests (2988/95) as following:</p> <p>"Irregularity" shall mean any infringement of a provision of a Community law resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the general budget of the Communities or budgets managed by them, either by reducing or losing revenue accruing from own resources collected directly on behalf of the Communities, or by an unjustified item of expenditure.</p>
Job description	A set of tasks or activities to be performed by an individual which delimits the function of the job (or position) occupied by that individual.

Management control	<p>Or <i>Internal control</i> is the organisation, policies and procedures used to help ensure that government programmes achieve their intended results; that the resources used to deliver these programmes are consistent with the stated aims and objectives of the organisations concerned; that programmes are protected from waste, fraud and mismanagement; and that reliable and timely information is obtained, maintained, reported and used for decision making.</p> <p>It is the responsibility of an organisation's management to establish and monitor management control systems, not that of the external auditor. However, an external auditor should comment on the absence or adequacy of such systems since a consequence of good management controls is that less detailed auditing of individual documents and transactions will be necessary. See also <i>Accounting Controls, Administrative Controls, Control (1)</i>.</p>
Management information systems (MIS)	<p>Refer to those sources of data and records held within ministries or agencies which are designed as a common pool of information to assist managers in carrying out their responsibilities. Financial management information systems (FMIS)—a sub-set of MIS—are widely regarded as essential for most ministries and agencies to manage their resources better. Such systems may also assist in the evaluation of programme performance, in workload planning and in monitoring progress towards objectives. Management information systems form a key element of management controls.</p>
Materiality	<p>Refers to the significance of a matter in relation to a set of financial or performance information. If a matter is material to the set of information, then it is likely to be of significance to a user of that information.</p>
Outcomes	<p>Refer to what is ultimately achieved by an activity, as distinct from its outputs which relate to more direct or immediate objectives. Thus, the outcome of a random breath-testing campaign conducted by the police may be a decline in the incidence of drink-related motor vehicle accidents, whilst one of the outputs could be the number of drivers charged with exceeding the legal alcohol limit. It is often difficult to measure outcomes.</p>
Outputs	<p>Refer to what is produced directly or immediately by an activity. Depending on their nature, outputs may, or may not be straightforward to measure. Thus, the number of hospital cases treated by a doctor is likely to be easier to measure than the advice on a policy issue submitted by a health administrator to his chief executive or minister, which can only be evaluated in a qualitative and essentially subjective way.</p>
Own resources	<p>EU own resources refer to customs duties and agricultural duties (<i>traditional own resources</i>), the resource based on VAT, and a complementary resource based on GNP.</p>

Performance appraisal	Assessment against a set of predetermined criteria of the efficiency and effectiveness with which an individual fulfils an agreed set of tasks. Such appraisals are frequently used in assessing whether managers should qualify for pay increases or promotion.
Performance audit	Audit covering economy, efficiency and effectiveness aspects of social programmes (or any other activity). See also <i>ex post</i> control.
Performance measurement	Assessment against a set of predetermined criteria of the economy, efficiency and effectiveness with which an organisation carries out a particular activity or range of activities. Organisations may be set regular targets on particular aspects of their performance—financial returns, efficiency, quality of services supplied, etc.—against which their performance is monitored and evaluated.
Programme evaluation	The process whereby the activities undertaken by ministries and agencies are assessed against a set of objectives or criteria. This may include an assessment of programme outcomes. Programme evaluations may be conducted on a regular basis. They may be internal evaluations, or may be carried out by a third party such as the Ministry of Finance, the SAI, or an external consultant.
Principle of additionality	Additionality means that the funds of the European Community should not replace, but be an addition to national regional policy funds.
Principle of subsidiarity	The subsidiarity principle is intended to ensure that decisions are taken as closely as possible to the citizen and that constant checks are made as to whether action at Community level is justified in the light of the possibilities available at national, regional or local level. Specifically, it is the principle whereby the Union does not take action (except in the areas which fall within its exclusive competence) unless it is more effective than action taken at national, regional or local level. It is closely bound up with the principles of proportionality and necessity, which require that any action by the Union should not go beyond what is necessary to achieve the objectives of the Treaty.
Risk analysis/assessment	A systematic process for assessing and integrating professional judgements about probable adverse conditions and/or events. The risk assessment process should provide means of organising and integrating professional judgements for development of the work schedule.
Supreme Audit Institution (“SAI”)	Refers to any organisation which sets standards for audit work. The organisation itself will depend on the particular scope of the audit.
Traditional Own Resources	EU traditional own resources refer to customs duties and agricultural duties. See Own resources.

Appendix 4. Some EU Regulations Concerning Budgeting, Financial Control And External Audit

Primary law

Regulation/directive etc.	Subject
TEC ⁴² , Article 5	Establishing general obligations of the Member States.
TEC, Article 155	Obligations and responsibilities of the European Commission.
TEC, Article 188a-188c	Provisions for the European Court of Auditors.
TEC, Articles 199-209	Financial provisions.
TEC, Article 209a	Fight against fraud.

Secondary law

Budgeting

Regulation/directive etc.	Subject
1231/77	Financial Regulation of 21 December 1977 applicable to the general budget of the European Communities. (Implemented by 3418/93).
3418/93	Commission Regulation (Euratom, ECSC, EC) No. 3418/93 of 9 December 1993 laying down detailed rules for the implementation of certain provisions of the Financial Regulation of 21 December 1977.
94/729	Council Decision (EC, Euratom) of 31 October 1994 on budgetary discipline.
Interinstitutional agreement	Budgetary discipline and improvement of the budgetary procedure.

Expenditure

Regulation/directive etc.	Subject
729/70	Regulation (EEC) No. 729/70 of the Council of 21 April 1970 on the financing of the common agricultural policy.

42. Treaty of the European Economic Communities also known as the Treaty of Rome.

Own Resources

Regulation/directive etc.	Subject
88/376	Council Decision (EEC, Euratom) of 24 June 1988 on the system of the Communities' own resources (Implemented by 1552/89).
1552/89	Council Regulation (EEC, Euratom) No. 1552/89 of 29 May 1989 implementing Decision 88/376/EEC, Euratom on the system of the Communities' own resources.
1553/89	Council Regulation (EEC, Euratom) No. 1553/89 on the definitive uniform arrangements for the collection of own resources accruing from value added tax.
89/130	Council Directive (EEC, Euratom) of 13 February 1989 on the harmonisation of the compilation of gross national product at market prices.
94/728	Council Decision (EC, Euratom) of 31 October 1994 on the system of the European Communities' own resources System of own resources of the EC.

Financial Control And External Audit

Regulation/directive etc.	Subject
2988/95	Council Regulation (EC, Euratom) No. 2988/95 of 18 December 1995 on the protection of the European Communities financial interests.
2185/96	Council Regulation (Euratom, EC) No. 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities' financial interests against fraud and other irregularities.

Agriculture

Regulation/directive etc.	Subject
1663/95	Commission Regulation (EC) No. 1663/95 of 7 July 1995 laying down detailed rules for the application of Council regulation (EEC) No. 729/70 regarding the procedure for the clearance of the accounts of the EAGGF Guarantee Section.
4045/89	Council Regulation (EEC) No. 4045/89 of 21 December 1989 on scrutiny by Member States of transactions forming part of the system of financing by the Guarantee Section of the European Agricultural Guidance and Guarantee Fund.
307/91	Council Regulation (EEC) No. 307/91 of 4 February 1991 on reinforcing the monitoring of certain expenditure chargeable to the Guarantee Section of the European Agricultural Guidance and Guarantee Fund.
3508/92	Council Regulation (EEC) No. 3508/92 of 27 November 1992 establishing an integrated administration and control system (IACS) for certain Community aid schemes (Implemented by 3887/92).
3887/92	Commission Regulation (EEC) No. 3887/92 of 23 December 1992 laying down detailed rules for applying the integrated administration and control system for certain Community aid schemes.
723/97	Council Regulation (EC) No. 723/97 of 22 April 1997 on the implementation of Member States' action programmes on control of EAGGF Guarantee Section expenditure.
515/97	Council Regulation (EC) No. 515/97 concerning mutual assistance between authorities of the Member States and co-operation between these authorities and the Commission to secure the correct application of customs — and agricultural legislation.
386/90	Council Regulation (EEC) No. 386/90 of the 12 February 1990 on the monitoring carried out at the time of export of agricultural products receiving refunds or other amounts.

Structural Funds

Regulation/directive etc.	Subject
2052/88	Council Regulation (EEC) No. 2052/88 of 24 June 1988 on the tasks of the Structural Funds and their effectiveness and on co-ordination of their activities between themselves and with the operations of the European Investment Bank and the other existing financial instruments (Implemented by 4253/88).
4253/88	Council Regulation (EEC) No. 4253/88 of 19 December 1988 laying down provisions for implementing Regulation (EEC) No. 2052/88 as regards co-ordination of the activities of the different Structural Funds between themselves and with the operations of the European Investment Bank and the other existing financial instruments.

Customs Co-Operation

Regulation/directive etc.	Subject
210/97	Decision No. 210/97/EC of the European Parliament and of the Council of 19 December 1996 adopting an action programme for customs in the Community (Customs 2 000).

Reclaiming Of Amounts And Sanctions

Regulation/directive etc.	Subject
595/91	Council Regulation (EEC) No. 595/91 of 4 March 1991 concerning irregularities and the recovery of sums wrongly paid in connection with the financing of the common agricultural policy and the organisation of an information system in this field.
1681/94	Commission Regulation (EC) No. 1681/94 of 11 July 1994 concerning irregularities and the recovery of sums wrongly paid in connection with the financing of the structural policies and the organisation of an information system in this field.
1469/95	Council Regulation (EC) No. 1469/95 of 22 June 1995 on measures to be taken with regard to certain beneficiaries of operations financed by the Guarantee Section of the EAGGF
745/96	Commission Regulation (EC) No. 745/96 of 24 April 1996 laying down detailed rules for the application of Council Regulation (EC) No. 1469/95 on measures to be taken with regard to certain beneficiaries of operations financed by the Guarantee Section of the EAGGF.

Appendix 5. List Of Abbreviations

ACA	Austrian Court of Audit= <i>Rechnungshof</i>
ACCT	Agence Comptable Centrale du Trésor (<i>French Accounting Agency of the Treasury</i>)
ACOFA	Agence Centrale des Organismes d'Intervention dans le Secteur Agricole (<i>French Central Agency of Guidance Organisations in the Agricultural Sector</i>)
AMA	Agrarmarkt Austria
AMS	Arbeitsmarktsservice (<i>Austrian Public Employment Service</i>)
ATS	Austrian Schillings= <i>Österreichische Schilling</i>
BCC	Budgetary Control Committee of the European Parliament
BHG	Bundeshaushaltsgesetz (<i>Austrian Federal Budget Act</i>)
BHV	Bundeshaushaltsverordnung (<i>Austrian Federal Budget Ordinance</i>)
C&AG	Comptroller and Auditor General (United Kingdom)
CAP	Common Agricultural Policy
CEC	Council of the European Communities <i>OR</i> Central European Countries
CICC	Commission de Co-ordination des Contrôles Communautaires (<i>French Co-ordination Commission of the Community Controls</i>)
CNASEA	Centre National pour l'Aménagement des Structures des Exploitations Agricoles (<i>French National Centre for Planning of Farms Structures</i>)
COCOLAF	UCLAF's Advisory Committee for the Co-ordination of Fraud Prevention
COREPER	Committee of Permanent Representatives of the European Union
CSF	Community Structural Framework
DAFSE	European Social Fund Affairs Department
DAS	Declaration d'Assurance (French for Statement of Assurance — See <i>SOA</i>)
DATAR	Délégation à l'Aménagement du Territoire et à l'Action Régionale (<i>French Delegation for Regional Planning</i>)
DB	Draft Budget
DFID	British Department for International Development
DG V	Directorate-General V (Employment, Industrial Relations & Social Affairs) of the European Commission
DG VI	Directorate-General VI (Agriculture) of the European Commission
DG IX	Directorate-General IX (Personnel and Administration) of the European Commission
DG XVI	Directorate-General XVI (Regional Policies) of the European Commission
DG XIX	Directorate-General XIX (Budgets) of the European Commission

DG XX	Directorate-General XX (Financial Control) of the European Commission
DGCCRF	Direction Générale de la Concurrence, de la Consommation et de la Répression des Fraudes (French General Department of Competition, Consumption and Fraud Repression)
DGDDI	Direction Générale des Douanes et des Droits Indirects (<i>French General Department of Customs and Indirect Duties</i>)
EAGGF	European Agricultural Guidance and Guarantee Fund (= FEOGA in French)
EC	European Community <i>OR</i> European Commission <i>OR</i> European Council
ECA	European Court of Auditors (= CCE in French)
ECOFIN	Economic & Finance Council of Ministers
ECSC	European Coal and Steel Community
ECU	European Currency Unit
EDF	European Development Fund
EEA	European Economic Area
EEC	European Economic Community
EES	European Economic Space
EIB	European Investment Bank
EMS	European Monetary System (Consists of two parts: ECU and ERM)
EMU	Economic and Monetary Union of the EC (also known as European Monetary Union)
EP	European Parliament
ERDF	European Regional Development Fund
ERM	Exchange Rate Mechanism
ESA	European Standards for Accounting
ESF	European Social Fund
EU	European Union
EURATOM	European Atomic Energy Community
EUROSAI	European Organisation of Supreme Audit Institutions
EUROSTAT	Statistical Office of the European Communities
FEOGA	See EAGGF
FF	French Francs
FIFG	Financial Instrument for Fisheries Guidance
FIM	Finnish Mark
FIRS	Fonds d'Intervention et de Régulation du Marché du Sucre (<i>Funds of Intervention and Regulation of the Sugar Market</i>)

GDP	Gross Domestic Product
GGE	General Government Expenditure
GNP	Gross National Product
IBAP	British Intervention Board for Agricultural Produce
ICLAF	Instance de Co-ordination de la Lutte Anti-Fraude (<i>French Co-ordination Authority for the Fight against Fraud</i>)
ICN	Institutions de Contrôle Nationales
IFADAP	Instituto de Financiamento e Apoio ao Desenvolvimento da Agricultura e Pescas (<i>Portuguese Agricultural and Fisheries Development Assistance and Financing Institute</i>)
IFAP	International Federation of Agricultural Producers
IGC	Inter-Governmental Conference
IGF	(Portuguese) Inspectorate General of Finance
INGA	Portuguese National Agricultural Intervention and Guarantee Institute
INSEE	Institut National de la Statistique et des Etudes Economiques (<i>French National Institute of Statistics and Economic Studies</i>)
INTERBEV	Association Nationale Interprofessionnelle du Bétail et des Viandes (<i>French National Interprofessional Association for Cattle and Meat</i>)
INTERLAIT	Association Nationale Interprofessionnelle du Lait (<i>French National Interprofessional Association for Milk</i>)
INTOSAI	International Organisation of Supreme Audit Institutions
ISC	Institutions Supérieures de Contrôle (<i>SAI in English</i>)
IT	Information Technology
MoA	Ministry of Agriculture
MoF	Ministry of Finance
MS	Member State of the European Union
MUS	Monetary Unit Sampling
NAI	National Audit Institution
NAO	National Audit Office
NATO	North Atlantic Treaty Organisation
ONIC	Office National Interprofessionnel des Céréales (<i>French National Interprofessional Office for Cereals</i>)
ONILAIT	Office National Interprofessionnel du Lait et des Produits Laitiers (<i>French National Interprofessional Office for Milk and Dairy Products</i>)
OR	Own Resources

ÖSTAT	Österreichisches Statistisches Zentralamt (<i>Austrian Central Statistical Office</i>)
PAC	Public Accounts Committee (in several Parliaments)
PDB	Preliminary Draft Budget
PMU	Project Management Unit
PR	Permanent Representation in Brussels
PRG	Commission's Group of Personal Representatives of Finance Ministers on SEM 2000
PSA	Finnish Parliamentary State Auditors
RR	Swedish Parliamentary Auditors= <i>Riksdagensrevisorer</i>
RRV	Swedish National Audit Office= <i>Riksrevisionsverket</i>
SAI	Supreme Audit Institution
SCA	Special Committee for Agriculture
SEK	Swedish krona
SEM 2 000	Sound and Efficient Management Programme (Financial Management Reform Programme)
SF	Structural Fund
SGAR	Secrétaire Général pour les Affaires Régionales (<i>French General-Secretary for Regional Affairs</i>)
SGCI	Secrétariat du Comité Interministériel pour les Questions Economiques Européennes (<i>French Secretariat of the Interministerial Committee on European Economic Questions</i>)
SIGMA	Support for Improvement in Governance and Management in Central and Eastern European Countries
SME	Small and Medium-sized Enterprises
SOA	Statement of Assurance (= DAS)
SPD	Single Programming Document
TEN	Trans European Network
UCLAF	European Commission's Unit for the Co-ordination of Fraud Prevention
VAT	Value Added Tax
ZA/E	Zollamt Erstattungen (Austrian Customs Authority)

Appendix 6. Members Of The Reference Group

AUSTRIA

Ms. Edith PETERS, Senior Economist
Ministry of Finance

Mr. Hans-Peter TUSCHLA, Auditor
Rechnungshof Austria, Department of European Affairs

CZECH REPUBLIC

Mr. Bohdan HEJDUK, Director
Supreme Audit Office, Department of State Revenues

Ms. Drahomíra VASKOVÁ, Head of Public Budget Division
Ministry of Finance, Financial Policy & Analysis Dept.

DENMARK

Mr. Hans ANDERSEN, Head of Division
Rigsrevisionen

FINLAND

Ms. Eija-Leena LINKOLA, Counsellor
Ministry of Finance, Public Management Department

Mr. Samu TUOMINEN, Special Researcher
Statens Revisionsverk

HUNGARY

Mr. Csaba LASZLO, Deputy State Secretary
Ministry of Finance

Mr. Laszlo NYIKOS, Vice President
State Audit Office

POLAND

Ms. Barbara BAKALARSKA, Advisor to the Minister
Ministry of Finance, Department of State Budget

Mr. Pawel BANAS, Economic Adviser
Supreme Chamber of Control, Economy and European Integration Dept.

Ms. Agnieszka KITA-KAZMIERCZAK, Division Manager
Committee for European Integration, Department for Foreign Assistance, EU Funds and Programmes

Ms. Stanisława KUDACH, Deputy Director
Ministry of Finance, Department of State Budget

Dr. Jacek MAZUR, Adviser to the President
Supreme Chamber of Control,

PORTUGAL

Mr. Vitor CALDEIRA, Deputy Inspector General
Inspecção-Geral de Finanças

Ms. Helena LOPES
Tribunal de Contas

SWEDEN

Mrs. Ulrika BARKLUND LARSSON, Economic & Financial Counsellor
Swedish Permanent Representation to the European Union

(Representing the Ministry of Finance)

Mr. Michael KOCH, First Secretary
Ministry of Finance

Mr. Lage OLOFSSON, Assistant Auditor General
Riksrevisionsverket

UNITED KINGDOM

Mr. Nick ILETT, Head EU Finances
HM Treasury

Mr. Cliff KEMBALL, Audit Manager
National Audit Office