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# The audit of legality and regularity by the European Court of Auditors

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# Personal views

The information, views and opinions expressed in this presentation are the presenter's personal views and do not necessarily reflect those of the European Court of Auditors.





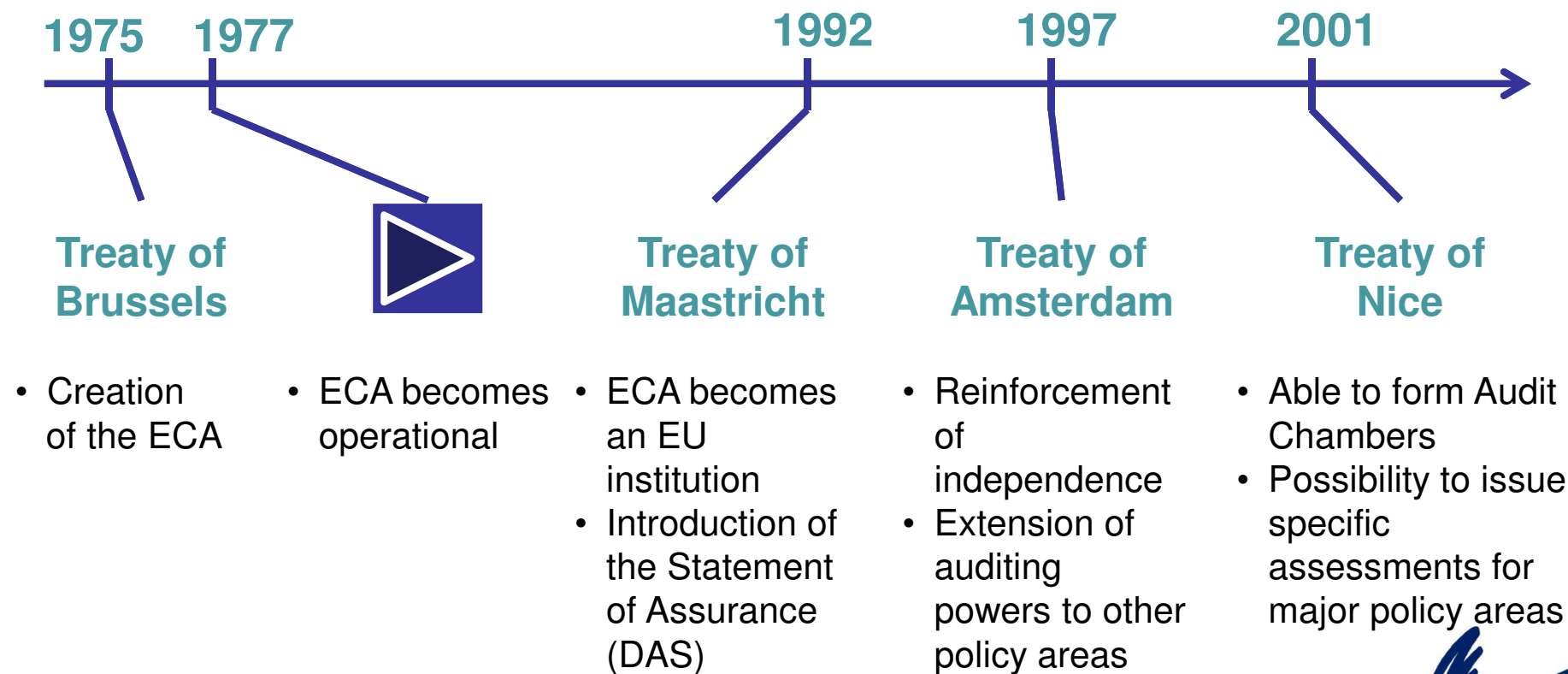
# Content

- Introduction:
  - ECA tasks and development
  - EU budget and management
  - Some reflections
- ECA annual report and statement of assurance
- Work in practice
- Discharge
- Future – management responsibility



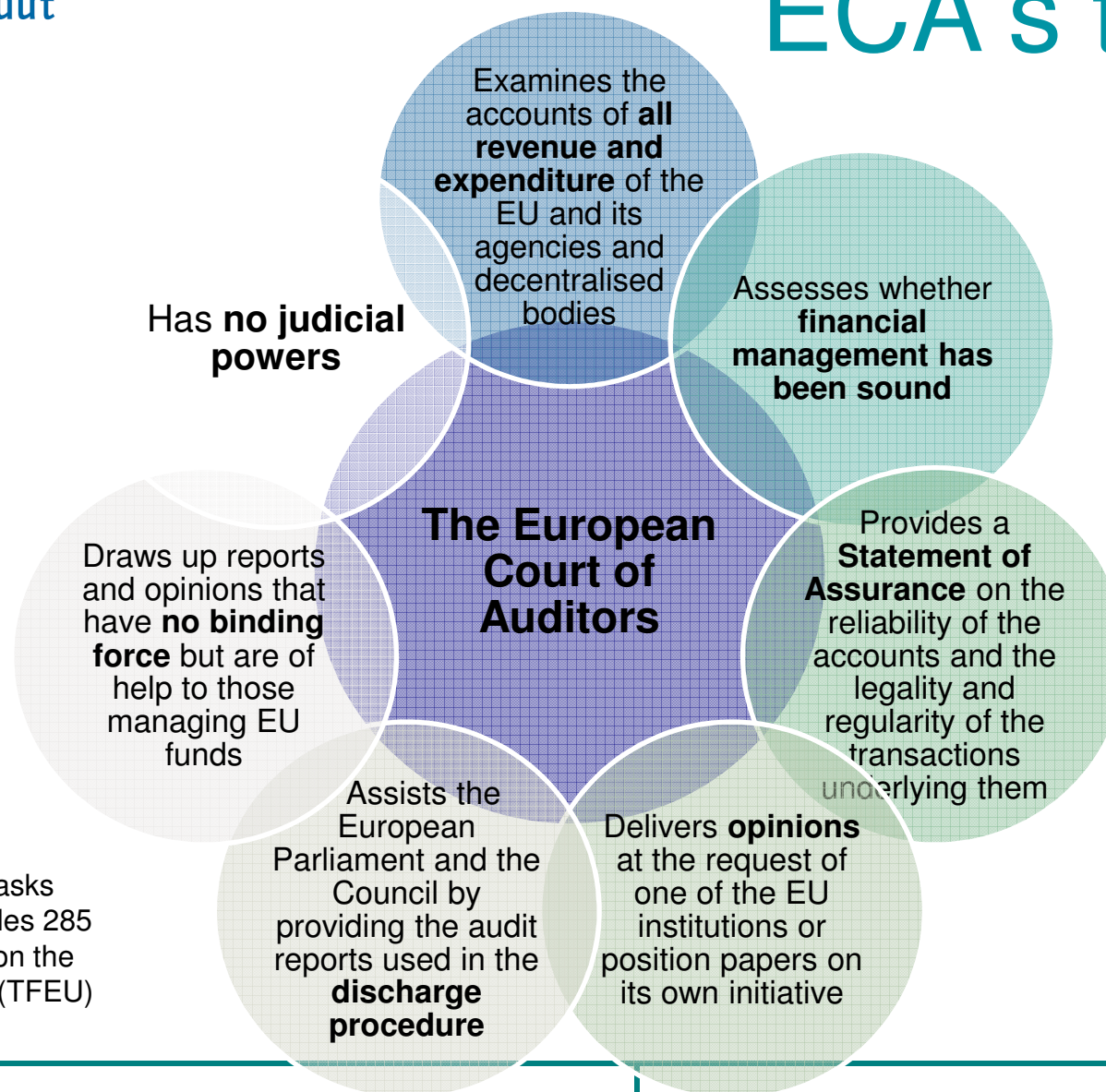


# Development of ECA





# ECA's tasks



\* The ECA's role and tasks and are set out in articles 285 and 287 of the Treaty on the Functioning of the EU (TFEU)





# Types of audit

## Selected audits

### Financial audit

#### Reliability of the accounts

- Obtain evidence on the extent to which transactions, assets and liabilities have been completely, correctly and accurately entered in the accounting records and presented in the financial statements

### Compliance audit

#### Legality and regularity of underlying transactions

- Obtain sufficient evidence to assess whether the revenue and spending operations underlying the EU budget have been carried out in accordance with contractual and legal requirements and are correctly and accurately calculated

### Performance audit

#### Soundness of financial management / Value for money

- Obtain sufficient evidence to show that EU funds have been used economically, efficiently and effectively, either by maximising output for a given input or through minimising costs for a defined objective

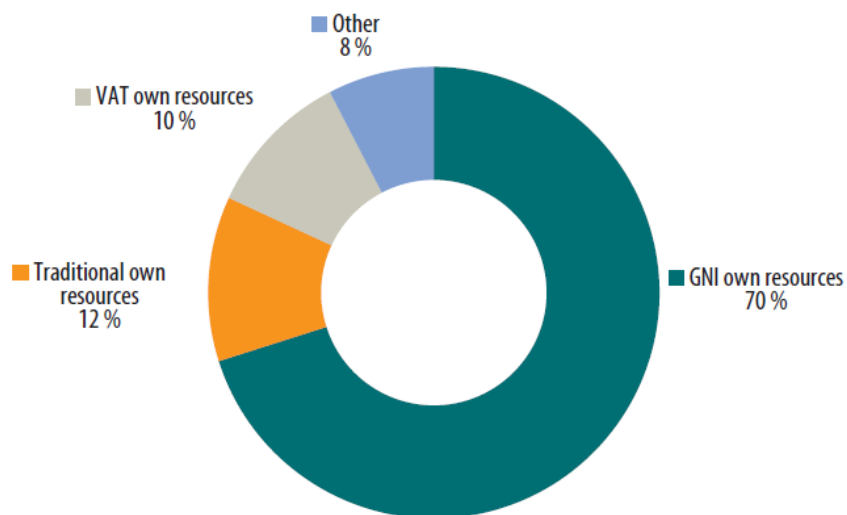
## Statement of Assurance





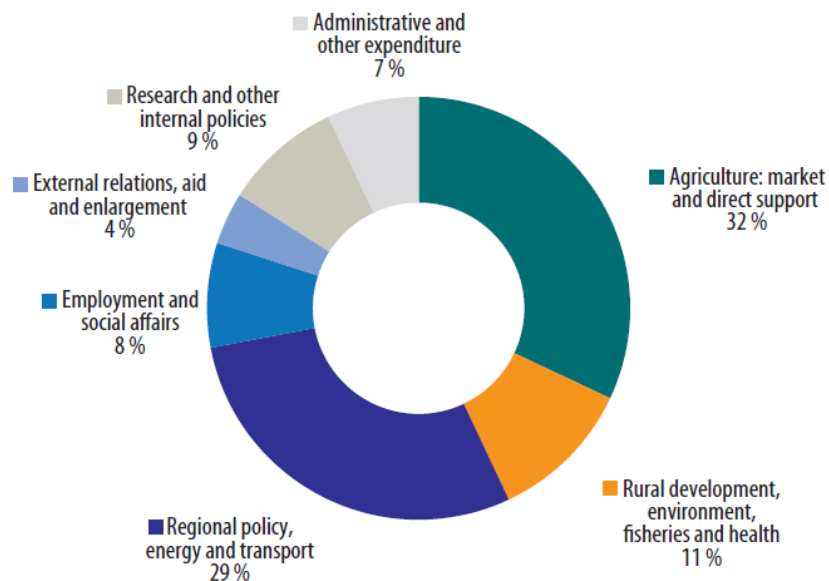
# EU Budget 2012

2012 REVENUE



Total revenue 2012  
€139.5 billion

2012 EXPENDITURE



Total expenditure 2012  
€138.6 billion





# Financial management



**Shared**  
76%



**Direct**  
22%



**Indirect**  
2%

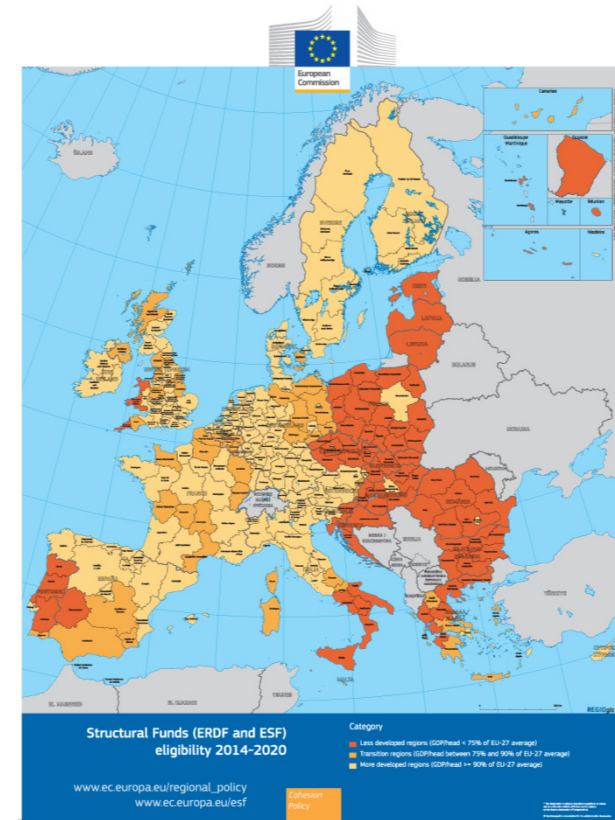






# Shared management

- Commission together with Member States
  - Regional governments
  - Agriculture: paying agencies (>90)
  - Structural funds: managing authorities for over 400 operational programmes  
([http://ec.europa.eu/regional\\_policy/manage/authority/authority\\_en.cfm](http://ec.europa.eu/regional_policy/manage/authority/authority_en.cfm))
- For the benefit of:
  - Farmers (over 7,5 million)  
([http://ec.europa.eu/agriculture/statistics/agricultural/2012/pdf/full-report\\_en.pdf](http://ec.europa.eu/agriculture/statistics/agricultural/2012/pdf/full-report_en.pdf), page 179)
  - (Future) employees trained (over 10 million)  
(DG Employment, social affairs and inclusion, 2012 annual activity report page 106, [http://ec.europa.eu/atwork/synthesis/aar/index\\_en.htm](http://ec.europa.eu/atwork/synthesis/aar/index_en.htm))
  - Regions  
[http://ec.europa.eu/regional\\_policy/country/commu/beneficiaries/index.cfm?LAN=EN&lang=en](http://ec.europa.eu/regional_policy/country/commu/beneficiaries/index.cfm?LAN=EN&lang=en)





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# Some reflections



Photos cover:

- The ECA buildings, K1, K2, K3
- Jean-Claude Juncker, Prime Minister of Luxembourg, Vitor Caldeira, President of the European Court of Auditors, John Perry TD, Minister of State for Small Business, Irish Presidency of the Council of the EU on 8 May 2013
- Official visit by His Royal Highness Grand Duke Henri of Luxembourg to the European Court of Auditors at its headquarters in Luxembourg, 28 May 2002
- Ms Mary McAleese, President of Ireland, on an official visit to the European Court of Auditors on 18 November 2003
- Her Royal Highness Beatrix, Queen of the Netherlands and Mr. André J. Middelhoeck, President of the Court on 29 November 1995





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# Some reflections

## THE FIRST TEN YEARS OF THE DAS

Giorgio Clemente

Member of the ECA 1993-2006 from Italy



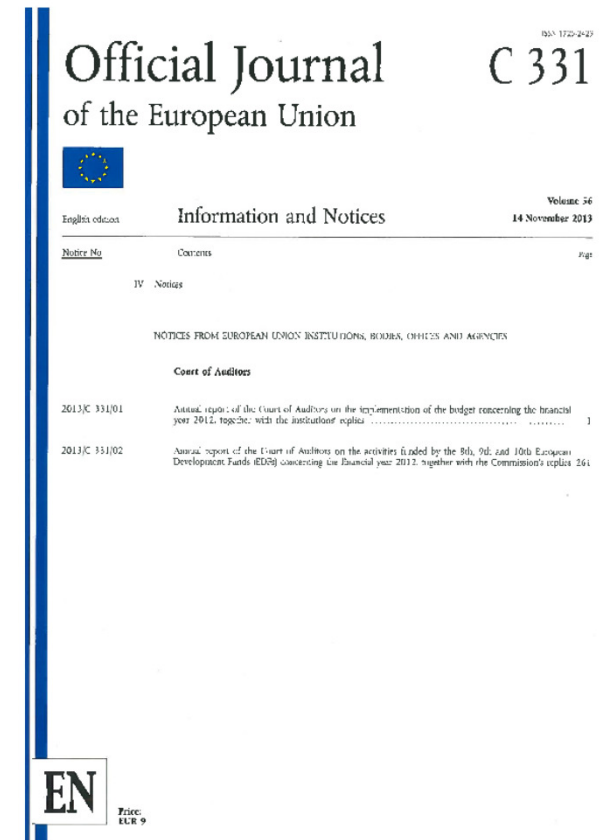
This statement of assurance was an opinion on the accuracy of the recording of accounting transactions (accuracy of entries), similar to the sort issued by independent auditors in the private sector. It did not provide certainty, since this could only be achieved by analysing all transactions (which would not have been desirable because of the unfavourable cost/benefit ratio), but an opinion based on the audit of a sample of transactions held to be representative of the whole and identified within the mass of the institution's transactions through a statistical method.





# ECA annual report

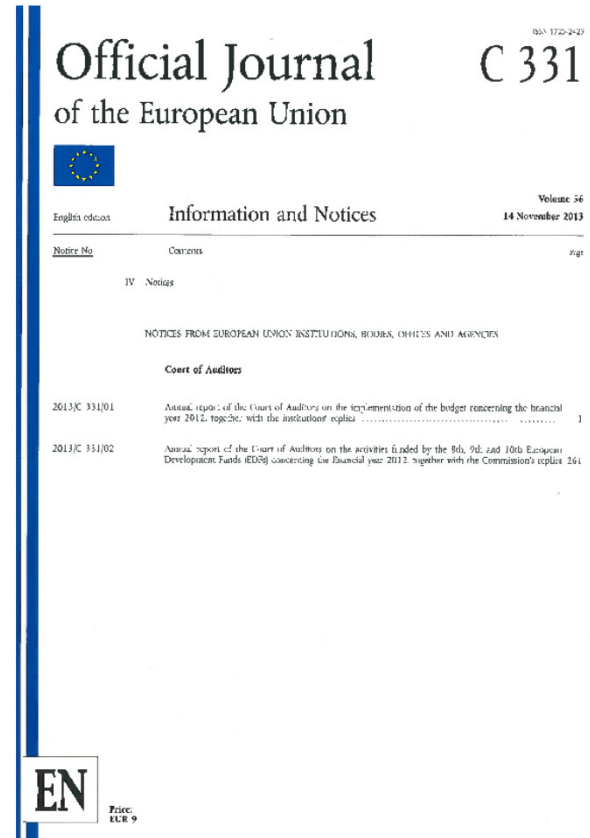
- Includes a statement of a statement of assurance on:
  - Reliability of the accounts
  - Legality and regularity of the transactions underlying the accounts
    - Revenue
    - Commitments
    - Payments





# ECA annual report

- Includes a statement of a statement of assurance on:
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    - Revenue
    - Commitments
    - Payments





# On payments



- **Basis for adverse opinion on the legality and regularity of payments underlying the accounts**

The Court concludes that the supervisory and control systems examined are partially effective in ensuring the legality and regularity of payments underlying the accounts (paragraph VI). All policy groups covering operational expenditure are materially affected by error. The Court's estimate for the most likely error rate for expensed payments underlying the accounts is 4,8% <sup>(3)</sup>

- **Adverse opinion on the legality and regularity of payments underlying the accounts**

In the Court's opinion, because of the significance of the matters described in the basis for adverse opinion on the legality and regularity of payments underlying the accounts paragraph, the payments underlying the accounts for the year ended 31 December 2012 are materially affected by error

(1) On the basis of the sampling approach used in previous years the estimated most likely error would have been 4,5 %.







# IFAC - INTOSAI

- Accounts
  - IFAC: ISA
  - INTOSAI: ISSAI 1000 series
- Legality and regularity
  - INTOSAI: ISSAI 4000 series

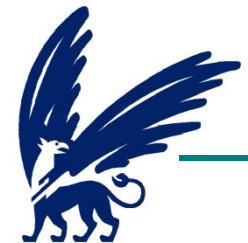
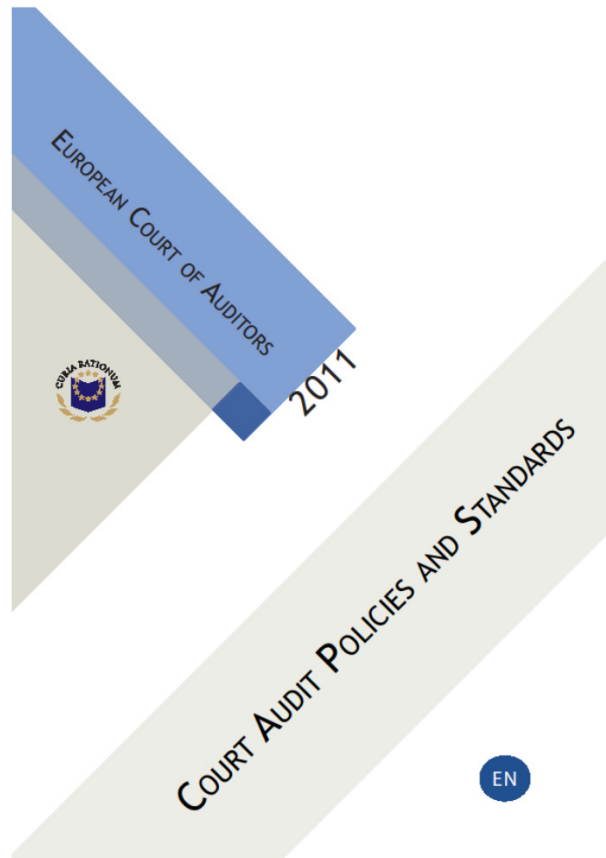




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# CAPS

# FCAM







# On-the-spot

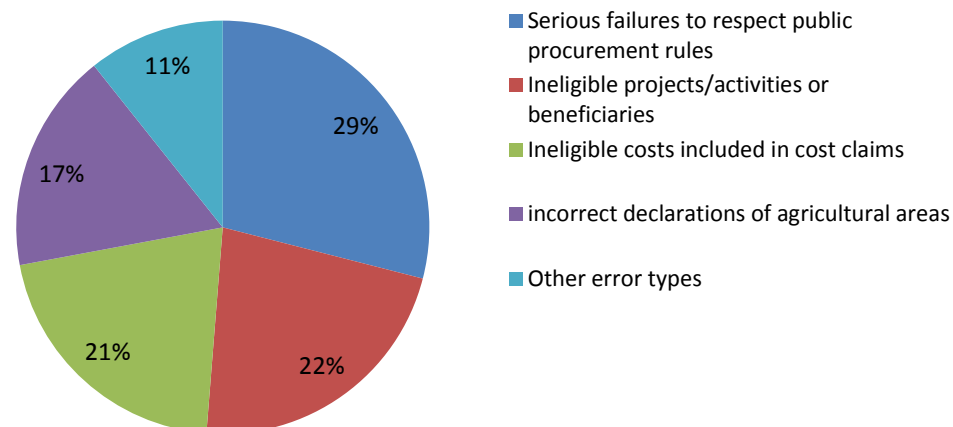
- <http://www.youtube.com/watch?v=7H94M8CdgNQ>



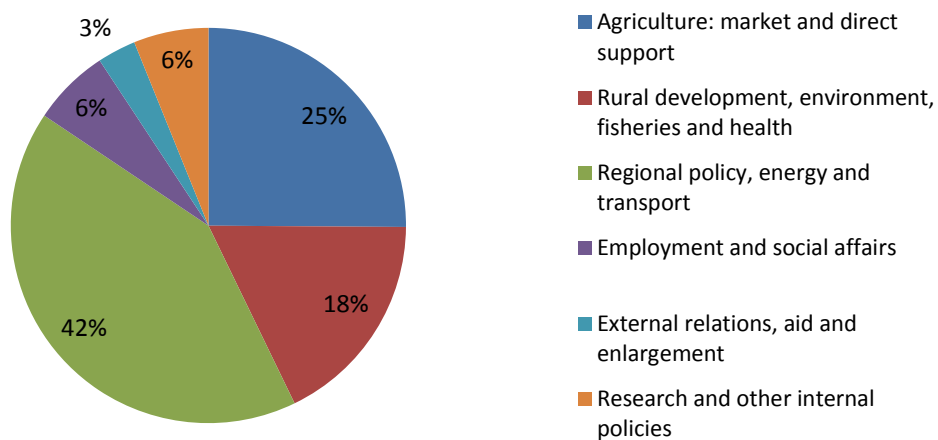


# Resulting in

**Graph 1.2 - Contribution to overall estimated error by type**



**Graph 1.3 - Contribution to overall estimated error by chapter**





# Why MUS

- Statement of assurance is on the entirety
  - An overall view is needed
  - Monetary Unit Sample provides for:
    - Proportion to the size (of the budget)
    - Random but (statistically) relevant selection
- Sampling is widely used:
  - By EU shared management
  - Other auditors
    - See for example work for the Directorate General for Development and Cooperation (DG DEVCO) in the 2012 annual activity report

([http://ec.europa.eu/atwork/synthesis/aar/index\\_en.htm](http://ec.europa.eu/atwork/synthesis/aar/index_en.htm), page 54-56)





# Discharge

- Discharge is the process by which the Parliament, acting on a Council recommendation, “releases” the Commission from further responsibility for a given budget year.

It represents:

- the political aspect of the external control of budget implementation; and
- the technical closure of the budget and accounts for the year





# Discharge 2012

- Parliaments' discharge resolution:  
... that the Court of Auditors still finds a significant error rate in the cost statements drawn up by independent auditors; considers, therefore, that the Commission and Member States should supply auditors with all the necessary background material and training material to facilitate correct auditing of cost statements; stresses that certified cost statements make sense only if the Commission can rely on them;





- In 2014
  - New European Parliament
  - New Commission
  - Start of the 2014-2020 programming period





- More emphasis on legality and regularity audits by Member States authorities in shared management:
  - As input for assurance for the Commission;
  - Performed at paying agency and managing authority level by independent auditors;
  - Applying an assurance model that provides statistical relevant results.





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# Questions

