



Improving accountability at national level

Speech by Gijs de Vries, Netherlands Court of Audit, at the Interparliamentary
Conference on Improving National Accountability of European Union Funds

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Ladies and Gentlemen,

Thank you very much for inviting me to address this important conference. Let me briefly explain why I believe the topic of our meeting is both timely and relevant.

Citizens everywhere require governments to spend public finances prudently, effectively, and in accordance with the law. Trust in government depends, *inter alia*, on how public institutions manage taxpayers' money. Allegations of corruption and financial mismanagement have undermined trust in government both at national level and at the level of the European Union. Citizens resent politicians or civil servants wasting or mismanaging taxpayer's money. The European Union's budget may represent only around 1% of EU GNI, at over € 141 billion it exceeds the national budgets of several EU Member States. This money is not being managed properly. In the past fifteen years, it has never been possible for the European Court of Auditors to provide a positive 'Declaration of Assurance' for the execution of the EU budget. As some 80% of EU funds is managed by EU Member States in cooperation with the European Commission, EU Member States share responsibility for improving this sorry state of affairs. It is not only the legitimacy



of the Union which is at stake. Mismanagement of EU funds within EU Member States also saps public trust in national politics.

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National parliaments have an important role to play in this respect. Article 317 of the Treaty on the Functioning of the European Union states: *"The Commission shall implement the budget in cooperation with Member States"*. It is a fundamental principle of democratic politics that public spending must be subject to public scrutiny. By holding national governments to account, parliaments can help to improve the legality, regularity and effectiveness of EU spending in the Member States. Members of Parliament are the guardians of the public interest. The more they improve their oversight of national and EU spending, the more they will be able to contribute to their citizens' trust in political institutions.

The Member States, together with the European Commission, are responsible for improving the legality, regularity and effectiveness of EU expenditure. In recent years the Commission has taken several helpful initiatives. These include the Annual Activity Reports by its DG's and Services and the Synthesis Report by the European Commission as a whole.

Furthermore, the European Court of Auditors has noted improvements in the implementation of the budget. For example, in its Annual Report 2007, the ECA concluded that the expenditures covered by the European Agricultural Guarantee Fund were free from material error.

Thirdly, there have been some improvements by national authorities. The heads of paying agencies have started to issue 'in control statements'. In 2008, four countries (Denmark, the UK, Sweden and the Netherlands) published a Member State Declaration, and other Member States are considering taking a similar initiative. All Member States have issued Annual Summaries, although only three of these Annual Summaries (in Finland, Sweden and the Netherlands) have been made public.



The national Supreme Audit Institutions are conducting more EU audits, and the number of EU SAIs which issue overall reports on EU financial management has risen to ten.

So progress is being made. However, significant challenges remain. There is still considerable room for improvement, particularly at the level of Member States.

For example:

- 1) In its 2007 annual report, the European Court of Auditors identified inadequacies in the management and control systems for the Single Payment Scheme for agricultural funds in France, the Netherlands, Portugal, Spain, and the United Kingdom.
- 2) As stated by the EP, 96% of financial corrections for the Cohesion Fund in the period 2000-2006 applied to payments made in only two Member States: Greece and Spain.
- 3) And 84% of the financial corrections for the European Social Fund in the period 2000-2006 were related to spending by Italy and Spain.

Even though all Member States will have to shoulder their part of our common responsibilities, these findings demonstrate that some Member States face particular challenges.

I would like to turn now to the ways in which national and EU institutions can address their responsibilities and reach our common goal of improving the regularity, legality and effectiveness of the underlying transactions in the EU budget. In keeping with the nature of this conference my focus will be on the role of national parliaments and supreme audit institutions.

To be able to exercise effective scrutiny over public spending national parliaments must be properly informed. Instruments such as Member State Declarations and



Annual Summaries can be particularly useful to improve the necessary transparency and accountability to national parliaments. It is important, however, to note the differences between these instruments. They differ as to their status, content, and reliability.

Firstly, the Member State Declarations are public documents, available to national parliaments and to citizens. Only some governments have published their Annual Summary and submitted it to their national parliaments.

Secondly, whereas National Declarations provide assurance about the legality and regularity of the underlying transactions of EU expenditure and remittances, Annual Summaries do not. The summaries summarize the available accountability reporting and audits at the national level. They do not provide the assurance a national declaration provides.

Furthermore, the National Declarations of Denmark, the Netherlands, Sweden and the United Kingdom have been audited by the national audit office in each country. The Annual Summaries, by contrast, have not been subjected to independent external scrutiny by the national SAI.

Compared to Annual Summaries, therefore, National Declarations provide more transparency and greater assurance. This is why the European Parliament has repeatedly urged the European Commission to promote their use by Member States. However, as several Member states have proved reluctant to provide such transparency the Commission has offered only tepid support. Therefore, if national parliaments are to receive full and independently audited information about the spending of EU funds in their country, it would seem that they will have to raise their game. They may wish to invite their national government to issue an annual Member State Declaration. They could also ask their Supreme Audit Institution to provide an independent assessment.



Ultimately, accountability by national governments about the legality and regularity of EU spending in our Member States must not be left to the discretion of these governments. Accountability to the people should be an obligation, not a matter of choice. Citizens expect no less. The obligation to issue a Member State Declaration and to have it audited by the relevant Supreme Audit Institution should be included in the European Union's Financial Regulation. The current Financial Regulation is under review, and reflection about its revision will be high on the agenda of the incoming Commission. The European Commission should exercise its responsibility under the Treaty and issue the necessary proposal. The European Parliament could strengthen the Commission's hand.

In the meantime, transparency and accountability could be enhanced if the Member States would agree to publish their Annual Summaries. This would permit the Commission in turn to publish the recommendations it provides to Member States to improve the quality of the Annual Summaries. Publication of the Annual Summaries on the Internet would also enable national authorities to learn from the experience of other Member states.

Some have argued that possibly the best way to enable the European Court of Auditors to provide a positive Declaration of Assurance would be to increase the tolerable level of error in the budget. The European Commission, in particular, has invited reflection on the tolerable risk of error. There is, indeed, a strong argument to be made that the cost of control should not be disproportionate to the benefits of controls. In fact, the Committee of Presidents of SAI's in the Union is preparing a report on the cost of controls in the Member States. However, a note of caution is in order.

The cost of control of the EU budget depends to a considerable degree on the nature of the underlying regulations. The more complex the rules, the higher the cost of control is likely to be. Of course greater complexity also contributes to a higher rate of error. Furthermore, the cost of control by Member States tends to



be influenced by the quality of the national systems of control. Complex, slow and bureaucratic systems of control tend to be expensive. Efforts should therefore be focused on simplification of the regulations at European level and improvement of control systems at national level, rather than on increasing the tolerable level of error. Besides, will citizens feel more confident in the legality and regularity of EU spending if governments would find it easier to increase the tolerable rate of error than to reduce the number and financial volume of errors made? Absolution for past sins is a practice best reserved to the spiritual realm. In the mundane world of budgetary control, increasing the tolerable risk of error is no shortcut to heaven.

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There is one final point which, in the brief span of this introduction, I would like to raise. This is the need to pay attention not only to the legality and regularity of EU spending, but also to the effectiveness of expenditure.

Much time and effort is being invested in improving the conditions for the European Court of Auditors to issue a positive DAS, and rightly so. Improving the legality and regularity of the underlying transactions must remain a priority both of the institutions of the European Union and of national authorities. However, public expenditure must not only be rule-based but also effective. Governments are expected to provide value for money, regardless of whether the funds are raised domestically or provided by the European Union. The European Court of Auditors is to be commended for the increasing attention it devotes to performance audits of the policies of the European Union and the role of the European Commission. National Supreme Audit Institutions, for their part, have audited the implementation of certain EU policies at national level.

My own institution, the Algemene Rekenkamer, has recently reported on the implementation of the Lisbon Strategy for Sustainable Economic Growth and Jobs in the Netherlands. Together with our colleagues from Belgium and Germany we also issued a joint report on Intra-Community Fraud with Value-Added Tax – a report which, I am pleased to say, has prompted a notable policy response from



the Dutch government. Many SAI's in Europe are finding that they can provide added value to their parliaments and publics by carrying out such joint or parallel audits in areas where national policies and EU policies intersect. Coordinated audits help SAI's to identify good practices and to learn from each other. SAI's could be even more effective, however, if they were to incorporate joint efforts on cross-border issues in their national planning cycles at an early stage, rather than after national programming schedules have been established. Better forward planning by the Algemene Rekenkamer, for example, would have enabled us to carry out our recent audit of Dutch fisheries policies in cooperation with our Scandinavian and Baltic colleagues and the European Court of Auditors. Fish tend to operate across national borders. So, where appropriate, and within the limits of our respective mandates and competences, should SAI's.

One consequence of the process of European integration is that the legitimacy of our national states has become inextricably intertwined with the legitimacy of the European Union. Democratic accountability with respect to the European Union's budget must therefore be exercised both at European level and in each of our Member States. National institutions and European institutions must work together, respectful of each other's roles and responsibilities, but with the common objective of safeguarding the public interest. European citizens want the EU budget to be spent correctly and effectively. It is our job to make that happen.

Thank you for your attention.

Gijs de Vries has been a member of the Government and the Parliament of The Netherlands. He is a former Leader of the Liberal and Democratic Group in the European Parliament. He currently serves as Vice-President of the Algemene Rekenkamer, the Dutch Court of Audit.



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Gijs de Vries

Netherlands Court of Audit



Introduction

- The European Court of Auditors has never been able to give a positive Declaration of Assurance (DAS) for the execution of the EU budget
- As 80% of EU funds fall under shared management, EU Member States share responsibility
- National parliaments can help improve accountability



Some positive developments

- The European Commission (EC) has taken helpful initiatives to improve legality, regularity and effectiveness of EU expenditure, such as:
 - Annual activity reports by its DGs and services
 - Synthesis report by EC as a whole
- The ECA is has noted improvements in the implementation of the budget (e.g. its latest opinion on agricultural expenditure)
- Member State reporting is gradually increasing - Annual Summaries (AS) and several Member State Declarations (MSD)
- SAIs in general are conducting more EU audits and ten are producing overall reports on EU financial management



Challenges ahead (1)

- At the national level, parliamentary control of EU funds needs to be improved
- Some illustrations:
 - Inadequacies in management and control systems for Single Payment Scheme for agricultural funds in the Netherlands, Portugal, the UK, France and Spain (ECA Annual report over 2007)
 - 96% financial corrections Cohesion Fund in the period 2000-2006 in Greece and Spain (EP discharge resolution over 2007)
 - 84% financial corrections European Social Fund in the period 2000-2006 in Spain and Italy (EP discharge resolution over 2007)



Challenges ahead (2)

- Member State Declarations and Annual Summaries can help improve the necessary transparency and accountability to national parliaments
- They differ however in status, content and reliability:
 - MSD are public documents, provide assurance on legality and regularity of underlying transactions and are audited by SAIs
 - AS are only sometimes published and submitted to national parliaments, do not provide the assurance MSD provide and are not subjected to the independent scrutiny of SAIs



Organise Accountability

- Accountability should be an obligation and not a matter of choice
- Include MSD in the Financial Regulation
- European Commission to issue the necessary proposal
- In the meantime publish the Annual Summaries



Tolerable risk of error

Cost of control depends on

- (1) nature of underlying regulations (the more complex the higher the risk of error)
- (2) quality national systems

Focus efforts on

- (1) simplification of EU regulations
- (2) improving national control systems

Increasing error rate is no shortcut



Effectiveness of expenditure

- Public expenditure must not only be rule-based but also effective
- Coordinated audits by SAIs help us to identify good practices and learn from each other
- Incorporate joint efforts on cross-border issues in the national planning cycles of SAIs

Suggestions to national parliaments

- Conduct an annual debate on the conclusions of the ECA annual report
- Discuss the MSD/Annual Summaries that government issues
- Discuss member state SAI EU reports and other important ECA special reports
- Encourage government to issue a MSD including external assurance from the member state SAI and to publish the national AS