

EUROPEAN COURT OF AUDITORS



ANNUAL ACTIVITY
REPORT

2010

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European Court of Auditors

ANNUAL ACTIVITY REPORT



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MISSION

The European Court of Auditors is the EU Institution established by the Treaty to carry out the audit of EU finances. As the EU's external auditor, it contributes to improving EU financial management and acts as the independent guardian of the financial interests of the citizens of the Union, promoting accountability and transparency.

VISION

An independent and dynamic Court of Auditors, recognised for its integrity and impartiality, respected for its professionalism and for the quality and impact of its work, and providing crucial support to its stakeholders to improve the management of EU finances.

VALUES

The Court of Auditors is committed to:

INDEPENDENCE, INTEGRITY AND IMPARTIALITY	PROFESSIONALISM	ADDING VALUE	EXCELLENCE AND EFFICIENCY
Independence, integrity and impartiality for the institution, its Members and staff	Keeping high and exemplary standards in all professional aspects	Producing relevant, timely, high-quality reports, based on sound findings and evidence, which address the concerns of stakeholders and give a strong and authoritative message	Valuing individuals, developing talents, and rewarding performance
Providing adequate output to stakeholders without seeking instructions or succumbing to pressure from any outside source	Being involved in EU and worldwide public audit development	Contributing to effective improvement of EU management and to enhanced accountability in the management of EU funds	Ensuring effective communication to promote a team spirit
			Maximising efficiency in all aspects of work

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PRESIDENT'S FOREWORD



I would like to welcome you to the fourth edition of the European Court of Auditors' Annual Activity Report. This year we have taken the opportunity to re-organise the contents into two main sections: 'Our activities' and 'Our management', and present, for the first time, a full set of performance indicators.

2010 provided the Court with two significant opportunities to contribute to the debate on reforming the management of EU funds. At the beginning of the year, the Court provided the new Commission with an opinion on the main risks and challenges for improving EU financial management and, later in the year, on its proposals for amending the Financial Regulation applicable to the EU budget. At the same time, the Court also contributed to the inter-institutional dialogue on economic governance of the Union, emphasising the importance of ensuring adequate audit, accountability and transparency for any permanent stability mechanism. In addition, following the entry into force of the Lisbon Treaty, the Court was required to transmit its annual report on the implementation of the EU budget to the national parliaments of the Member States.

The year also saw a significant development in the public audit profession – the adoption of new international standards for supreme audit institutions. This report highlights the Court's contribution in recent years to the development of these standards which we will be applying in our future work. In 2010, the Court also cooperated with the supreme audit institutions of Member States to develop innovative and harmonised approaches to auditing EU funds, and participated in a pilot project involving coordinated audits on the regularity of agricultural expenditure with the national audit offices of the Netherlands and the Czech Republic.

During 2010 the Court welcomed eight new Members, and we made some important changes to strengthen internal governance and streamline decision-making. One such change stands out: the Court adopted new internal rules which establish a system of Chambers for the adoption of Court reports and opinions. The section 'Our management' describes the implications in more detail. It also gives an account of the resources we had at our disposal in 2010 and the measures we took to further improve our efficiency and effectiveness.

Looking forward to 2011, the Court will continue to apply its values and build on its achievements. We will continue to produce high-quality, independent and objective reports and opinions which contribute to improving EU financial management and which promote accountability and transparency. In particular, the Court will continue to follow closely the developments in European economic governance as well as examine the new legislative proposals affecting EU financial management after 2013.

In selecting and planning the tasks included in the 2011 work programme the Court's overriding concern has been to add value. We plan to publish 45 annual reports, comprising the annual reports on the implementation of the EU budget and the European Development Funds as well as specific annual reports on agencies and other institutions and bodies. Special reports provide a significant opportunity to add value by focusing on high risk areas and by addressing topics of particular relevance to stakeholders. In particular, the Court intends to report on the quality of EU spending on a range of topics, from financial engineering and the SME guarantee facility to EU funded E-government projects and the Single Payment Scheme for agriculture.

The Court's capacity to deliver its work programme for 2011 depends, to a large extent, on the efficiency of its organisation and to the excellence of its people. While continuing to implement its strategy for 2009-2012, the Court expects to begin reaping the full benefits of its recent reforms, including the streamlined decision-making procedures. The Court will continue to maintain its efforts to recruit the right staff, to keep vacant posts to a minimum and to support the professional development of its staff.

Without the commitment and professionalism of all those working at the Court our achievements in 2010 would not have been possible. I want to thank all colleagues for their engagement in making our institution an effective independent guardian of the financial interests of the citizens of the Union.



Vítor Manuel da SILVA CALDEIRA
President

2010 AT A GLANCE

OUR ACTIVITIES

- **Annual reports** on the EU budget and the European Development Funds for the 2009 financial year
- **40 specific annual reports** on the EU's various agencies and other institutions and bodies for the 2009 financial year
- **14 special reports**, mainly performance audits
- **Opinion** on improving the financial management of the EU budget
- **Five other opinions** on new or amended EU legislation, including on the proposal for the revised financial regulation
- Extensive contribution to the international **public audit profession** and community, including to the development of new standards for supreme audit institutions (ISSAIs)
- A pilot project involving **coordinated audits** with the supreme audit institutions of the Czech Republic and the Netherlands on the regularity of agricultural expenditure

OUR MANAGEMENT

- Presentation of a full set of **key performance indicators**, showing considerable satisfaction by key stakeholders in the quality of the Court's work
- Revision of the Court's rules of procedure, introducing **Chambers** to streamline decision making
- Recruitment of 97 new **employees**, resulting in a fall in vacant posts to below 5 % for the first time
- Continuing re-deployment of staff to audit as a result of **efficiency gains** in support services



OUR ACTIVITIES

AUDIT REPORTS AND OPINIONS

The European Court of Auditors has three main outputs:

- annual reports**, comprising the results of its financial and compliance audit work on specific financial years (including separately published specific annual reports on the European Union's agencies and other institutions and bodies);
- special reports**, published throughout the year, presenting the results of its selected audits, mainly performance audits assessing the economy, efficiency and effectiveness on selected areas of EU income and spending; and
- opinions** on draft legislation with an impact on financial management.

Number of reports and opinions	2006	2007	2008	2009	2010
Annual reports (EU budget and EDFs)	2	2	2	2	2
Specific annual reports (EU agencies and other institutions and bodies)	23	29	29	37	40
Special reports	11	9	12	18	14
Opinions	8	9	5	1	6

The full text of each report and opinion is available on the Court's website (www.eca.europa.eu).



Annual reports on the 2009 financial year

The Court undertakes annual financial audits of the implementation of the EU budget, the European Development Funds, and the EU's other agencies, institutions and bodies. The results of these audits are presented to the political authorities of the EU, the Parliament and the Council, in its annual reports. The Court devotes a significant proportion of its resources to preparing these reports.

The annual report on the implementation of the 2009 EU budget

During 2010 the Court carried out the bulk of its financial and compliance audit work on the implementation of the 2009 EU budget, producing its sixteenth statement of assurance (DAS). The results of this work were presented to stakeholders on 9 November 2010 in the Court's annual report on the implementation of the 2009 EU budget¹.

¹ OJ C 303, 9.11.2010.

The key messages of the annual report were:

- The accounts of the European Union gave a fair presentation of the financial position and the results of operations and cash flows.
- Payments from the budget continued to be materially affected by error, except in two areas of expenditure (economic and financial affairs and administration).
- The Court's estimate of the most likely error in cohesion spending was significantly lower than in previous years; and, for the budget as a whole, the estimate of error had fallen over recent years.
- The Commission had improved the information it provided on recoveries of irregularly paid amounts and other corrections. However, this information was not yet completely reliable. The Commission's data for corrections could not be meaningfully compared with the Court's estimated error rate.

In the report, the Court made recommendations on how to improve **financial management** by strengthening management systems and simplifying rules and regulations.



The annual report on the European Development Funds for 2009

The Court published its annual report on the European Development Funds (EDFs) for the 2009 financial year on 9 November 2010, alongside the annual report on the implementation of the 2009 EU budget.

The Court concluded that the 2009 accounts of the EDFs presented fairly, in all material respects, the financial position of the EDFs, and that their operations and cash flows were in accord with their financial regulation. The revenue of the EDFs was free from material error. The commitments and payments of the EDFs were free from material error. However, they were affected by frequent non-quantifiable errors.

The Court assessed supervisory and control systems as partially effective in ensuring payments were regular.

In the report, the Court made recommendations on improving aspects of the financial management of the EDFs, such as the **cost-effectiveness** of controls on spending, on the annual audit of closed projects, and on the use and monitoring of **budget support**.

The specific annual reports on EU agencies and other institutions and bodies for 2009

The Court published 40 specific annual reports for the 2009 financial year on the EU agencies and other institutions and bodies, in December 2010².

The Union's agencies cover a wide variety of tasks in different locations throughout the Union. Each agency has a specific mandate and manages its own budget. The Court provided unqualified opinions for all of the audited entities, except for the European Police College and the European Medicines Agency. In these cases, the Court qualified its opinion because of shortcomings in procurement procedures.

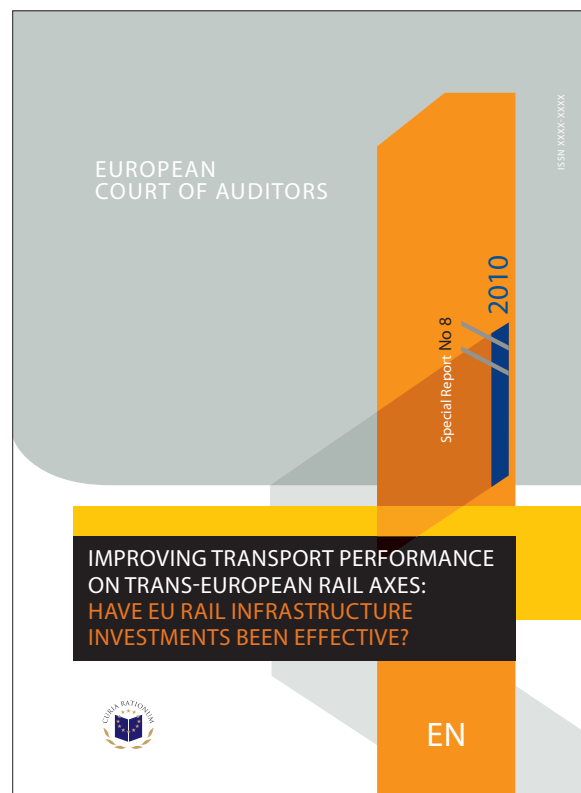
² OJ C 338, 14.12.2010 and OJ C 342, 16.12.2010.

Special reports in 2010

The Court selects and designs its performance and compliance audit tasks in order to maximise their impact, and thereby make best use of the resources devoted to these tasks. When selecting topics, the Court considers:

- the **risks** to performance or compliance for the particular area of revenue or expenditure;
- the **level** of income or spending involved;
- the **time** elapsed since any previous audit;
- forthcoming **developments** in the regulatory or operational frameworks; and
- political and public **interest**.

Selected performance and compliance audits require careful planning and execution to obtain the necessary evidence. In addition, the Court gives auditees the opportunity to consider its findings and prepare replies before it publishes the report. As a result, these audits generally require more than a year to complete.



THE MAIN STEPS IN A SELECTED PERFORMANCE OR COMPLIANCE AUDIT

Preliminary study to determine the feasibility of the audit in more detail.

Detailed planning setting out objectives and scope, and the audit approach and methods to be used.

Field work with multidisciplinary teams collecting evidence on-the-spot at Commission headquarters and in member and beneficiary states.

Analysis of findings and confirmation of facts with the auditee.

Preparation of the draft special report.

'Contradictory' procedure with the EU auditee institution.

Publication of the special report in 22 official languages, with the replies of the EU institutions audited.

The Court adopted a total of **14 special reports** in 2010. In these special reports, the Court makes recommendations on improving financial management. The **recommendations** suggest how weaknesses identified during the audit might be addressed; they are a key way the Court achieves impact with its work.

The special reports adopted by the Court in 2010 are presented briefly below under the headings of the current multi-annual financial framework³ - the multi-annual budget of the EU. The full versions are available on the Court's website (www.eca.europa.eu) or through the EU bookshop.

³ The figures quoted reflect the different revisions to the Multiannual Financial Framework 2007-2013 and current prices (*source*: European Commission).

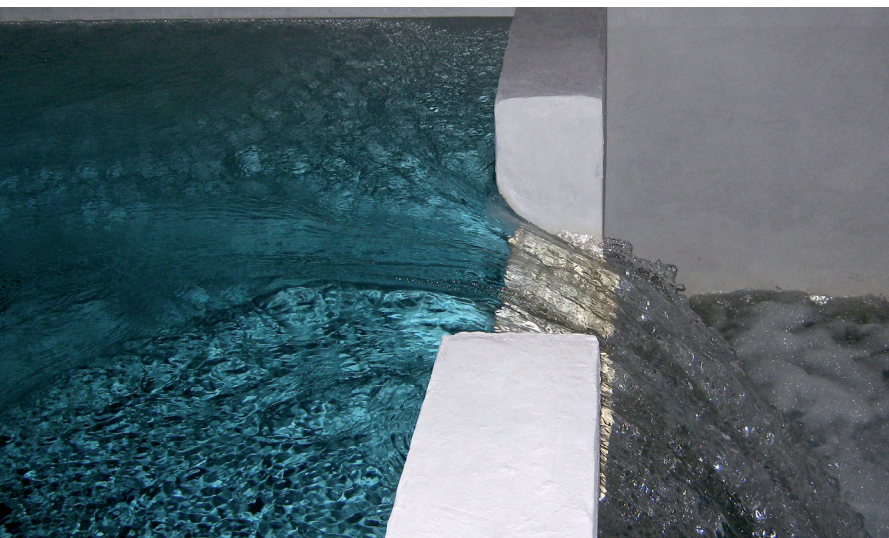
Sustainable growth

Sustainable growth covers two themes: competitiveness for growth and jobs and cohesion for growth and jobs. Competitiveness includes funding for research and technological development, connecting Europe through EU networks, education and training, promoting competitiveness in a fully-integrated single market, and the social policy agenda as well as nuclear de-commissioning. The EU budget to promote competitiveness for growth and employment for 2007-2013 amounts to 89,4 billion euro, 9,2 % of the total budget for the period. Close to two thirds of this money is being spent on research and development.

Cohesion for growth and jobs mainly concerns Cohesion policy, which is implemented through funds covering defined areas of activities, including the European Social Fund, the Cohesion Fund and the European Regional Development Fund. The funds are spent under shared management by the Commission and the Member States. The EU Cohesion budget for 2007-2013 is 348,4 billion euro (35,7 % of the total).

During 2010, the Court adopted the following special reports in this area:

- Effectiveness of the Design Studies and the Construction of New Infrastructures support schemes (Special report No 2/2010). Design Studies test the feasibility of potential research facilities and the Construction of New Infrastructure scheme supports the development of new or enhanced research infrastructure. The audit assessed whether these schemes contributed effectively to the achievement of the Research Infrastructures objectives of Sixth Framework Programme on Research for 2002-2006.
- Impact Assessments in the EU institutions: do they support decision-making? (Special report No 3/2010). Impact assessment is a cornerstone of the Better Regulation policy for improving and simplifying EU legislative proposals. The audit examined whether the Commission's impact assessments have been effective in supporting decision-making by the EU institutions. The findings of this report are relevant to other budgetary areas.



- Is the design and management of the mobility scheme of the Leonardo da Vinci programme likely to lead to effective results? (Special report No 4/2010). The Leonardo mobility scheme enables organisations involved in vocational education and training to send participants to another European country for periods of study – it is part of the integrated Life-long Learning Programme. The audit examined whether the scheme is likely to be effective based on an assessment of its design and management by the Commission and national agencies.
- Improving transport performance on Trans-European rail axes: Have EU rail infrastructure investments been effective? (Special report No 8/2010) (see box: “A performance audit in focus”).
- Is EU Structural Measures spending on the supply of water for domestic consumption used to best effect? (Special report No 9/2010). The Cohesion Fund and European Regional Development Fund provided over 4 billion euro of support to projects for domestic water supply systems in the programming period 2000-2006. The Court examined whether this money was used effectively to meet a number of needs, including to improve water availability, population coverage, the efficiency of systems and the quality of service.

A PERFORMANCE AUDIT IN FOCUS

IMPROVING TRANSPORT PERFORMANCE ON TRANS-EUROPEAN RAIL AXES: HAVE EU RAIL INFRASTRUCTURE INVESTMENTS BEEN EFFECTIVE? (SPECIAL REPORT No 8/2010)

The audit focused on EU co-financing of rail infrastructure and examined its **effectiveness** in improving the performance of trans-European axes. The Court concluded that some actions could be taken to achieve greater value for EU money but that EU funding has contributed to providing new possibilities for trans-European rail transport. With the TEN-T guidelines due for revision in 2011, the Court's report was particularly timely.

The Court recommended that the Commission should:

- work with Member States and railway institutions to identify those trans-European corridors for which there is significant demand for trans-European services, and strengthen the knowledge and analytical bases where necessary;
- consider placing increased emphasis on alleviating practical constraints for cross-border rail transport; and
- encourage and facilitate collaboration amongst Member State rail institutions so that they can plan developments together and find common solutions to practical problems.



"The audit presented some challenges for the team", according to Gareth Roberts, the audit team leader, "We had to learn very quickly about the realities of Europe's railways, and we saw some of the successes of fantastic modern railways and also how some parts of the network seem to be from another era. We were interested to see how far Europe's railways are moving from a patchwork to a network. There were up to ten auditors involved in the work because we had to cover many different languages".

"I very much appreciated working on the audit and have since become something of a rail enthusiast!", said Andrej Minarovič, the auditor who led the work in Germany and Austria. By the end of the audit, Fernando Pascual Gil was known as the team's 'mole' because he spent time in rail tunnels in both the Alps and the Pyrenees.



The audit team visited eight Member States and considered the impact that 21 rail projects co-funded by the European Union via TEN-T and Cohesion Policy had on trans-European rail transport. Part of the work involved visiting the projects, especially at cross-border zones. For this, the team found themselves riding freight trains across the Alps and deep underground observing the construction of large scale tunnels. Such visits proved to be

invaluable complements to the insight that came from reviewing reports, interviewing railway staff and the usual financial analysis.

Preservation and management of natural resources

The EU has an extensive competence and policy responsibility in the fields of agriculture and rural development, fisheries and the environment with a budget of 413 billion euro for 2007-2013. Three quarters of the money is spent on agricultural markets and direct payments to farmers. These payments are financed by the European Agricultural Guarantee Fund (EAGF), the 'first pillar' of the Common Agricultural Policy (CAP). More than a fifth of spending goes to EU support for Rural Development (RD) which is financed from the European Agricultural Fund for Rural Development (EAFRD), the second pillar of the CAP. Agriculture and rural development are under shared management between the Commission and Member States.

During 2010, the Court adopted the following special reports in this area:

- Implementation of the LEADER approach for rural development (Special report No 5/2010). LEADER is a "bottom-up" approach to rural development based on local partnerships. The audit assessed whether the LEADER approach has been implemented in ways that add value compared to traditional "top-down" implementation, while minimising the risk to financial management.
- Has the reform of the sugar market achieved its main objectives? (Special report No 6/2010). The EU launched a major reform of its sugar sector in 2006, aimed at ensuring the competitiveness of the EU sugar industry, stabilising markets and guaranteeing supply, and contributing to providing a fair standard of living for agricultural communities. The Court audited the implementation of the reform, and how far it had met its objectives.
- Audit of the clearance of accounts procedure (Special report No 7/2010). Through the clearance of the accounts procedure the Commission decides definitively whether to accept for EU financing agricultural spending implemented under shared management with Member States (54 billion euro in 2008). The audit assessed whether the procedure met the objectives set and allowed the Commission and other stakeholders to gain the necessary information on the accuracy of the accounts and the regularity of agricultural payments.



- Specific measures for agriculture in favour of the outermost regions of the Union and the smaller Aegean islands (Special report No 10/2010). In 2006, the agricultural measures created to take account of the structural, social, and economic situation of the outermost regions of the Union and the smaller Aegean islands were reformed, marking a shift towards greater regional participation and flexibility in decision-making. The audit assessed the effectiveness of the specific measures after the reform.
- The Commission's management of the system of veterinary checks for meat imports following the 2004 hygiene legislation reforms (Special report No 14/2010). Veterinary checks on imports are an important part of EU food safety policy which helps reduce the risk of outbreaks of disease and health crises that could be costly to the EU budget. The audit examined the Commission's supervision of the EU system of veterinary checks carried out at border inspection posts introduced as part of the 'hygiene package' of reforms that entered into force in 2006.

EU as a global player

In addition to enlargement, EU activities in the field of external relations focus on three main objectives: providing stability, security and prosperity in its neighbourhood ('The EU and its neighbourhood policy'); working actively to support sustainable development at the international level ('The EU as a sustainable development partner'); promoting global political governance and ensuring strategic and civilian security ('The EU as a global player'). To meet these objectives the EU allocated 55,9 billion euro for 2007-2013, i.e. 5,7 % of its total budget. Most spending is managed directly by the Commission either from its headquarters or through its delegations. Some aid is also jointly managed with international organisations.

During 2010, the Court adopted the following special reports in this area:

- The Commission's management of General Budget Support in ACP, Latin American and Asian Countries (Special report No 11/2010). General Budget Support (GBS) is generally considered the most effective way to deliver development aid by many donors, including the EU Commission. The audit assessed whether the Commission managed its GBS programmes effectively in the African, Caribbean and Pacific group of states (ACP), Latin America, and Asia.

- EU Development Assistance for Basic Education in Sub-Saharan Africa and South Asia (Special report No 12/2010). The EU and the international donor community are committed, through 'Education for all' and the 'Millennium development goals', to ensuring primary education for all children, eliminating gender inequalities, and improving education quality. The audit assessed whether EU development assistance helped achieve these goals in Sub-Saharan Africa and South Asia and whether the Commission managed the interventions well.
- Is the new European Neighbourhood and Partnership Instrument successfully launched and achieving results in the Southern Caucasus (Armenia, Azerbaijan and Georgia)? (Special report No 13/2010). The European Neighbourhood and Partnership Instrument provides a framework for planning and delivering assistance to partner countries and territories. Since 2007 over 311 million euro has been provided to three countries in the Southern Caucasus. The audit examined whether the ENPI had been successfully launched there and was achieving results.

Revenue

The budget of the European Union is mainly financed by own resources and other revenue. Traditional own resources - mainly customs duties - account for approximately 12 % of total revenue and the VAT resource accounts for a further 12 %. The majority of EU own resources (70 %) are provided by the Gross National Income resource, which is the balancing resource, thereby ensuring the budget is always in equilibrium.

During 2010, the Court adopted a special report on:

- Simplified Customs Procedures (No 1/2010). Simplified customs procedures enable authorised traders to benefit from an accelerated clearance process for importing goods and a simpler system for paying duties which form part of the revenue of the EU. The audit assessed the effectiveness of the regulatory framework and control approach of the Commission and Member States.

Opinions issued in 2010

The Court also contributes to improving EU financial management through its opinions on proposals for new or revised legislation with a financial impact. The legislative authorities – European Parliament and Council – use the Court’s opinions in their work. Opinions are also prepared on other issues at the request of another EU institution or on the Court’s own initiative.

In 2010 the Court adopted **six opinions**:

The first of these (No 1/2010) was on its own initiative, and entitled “Improving the financial management of the European Union budget: Risks and challenges”. The Court prepared the opinion for the new Commission to support its efforts to reduce further the level of irregular expenditure and to improve the quality of EU spending, which the Court identifies as a high priority. The opinion sets out the principles and priorities the Commission should consider when designing new or revising existing expenditure programmes and schemes.



The five other opinions concerned the:

- SESAR Joint Undertaking Financial Rules (No 2/2010)
- Proposal for a regulation of the European Parliament and of the Council amending Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities (No 3/2010)
- Proposal for a regulation of the European Parliament and of the Council amending Council Regulation (EC, Euratom) No 1605/2002 on the Financial Regulation applicable to the general budget of the European Communities, as regards the European External Action Service (No 4/2010)
- Proposal for a regulation of the European Parliament and of the Council amending the Staff Regulations of Officials of the European Communities and the Conditions of Employment of Other Servants of those Communities (No 5/2010)
- Proposal for a regulation of the European Parliament and of the Council on the Financial Regulation applicable to the general budget of the European Union (No 6/2010)

REVISING THE FINANCIAL REGULATION THE COURT'S VIEW

Opinion No 6/2010 addresses a significant proposal by the Commission for a revision to the financial regulation, which governs the way that the EU budget is collected, spent and accounted for.

The Court's opinion provides a comprehensive review of the Commission's proposal, designed to assist the Council and Parliament in judging whether the Commission's proposals are likely to promote the sound management of funds entrusted to the Union by European taxpayers. Building on the messages in its Opinion No 1/2010 (see above), the Court also points out that improving the quality of EU spending requires simpler and better legislation in specific areas of spending from the EU budget, together with other steps to support, encourage and require sound action by managers in the Commission, the other institutions, and the Member States.



COOPERATION WITH OTHER SAIS

The Court works with other supreme audit institutions (SAIs) on the development of public sector audit within the European Union and worldwide. This work helps develop innovative and harmonised approaches to the audit of EU funds as well as new international standards for all SAIs.

The Court works with other SAIs through:

- the Contact Committee of the SAIs of EU Member States;
- the Network of SAIs of candidate and potential candidate countries to the EU; and
- other professional forums, notably INTOSAI and EUROSAI.

Contact Committee

The Treaty requires the Court and national audit bodies of the Member States to cooperate in a spirit of trust while maintaining their independence. The Court actively cooperates with the EU Member State supreme audit institutions (SAIs) through the **Contact Committee** framework. The Contact Committee is an assembly of the heads of the EU SAIs and the Court, and meets each year. It provides a forum for cooperation and exchange of professional knowledge and experience on the audit of EU funds and other EU-related issues. Day-to-day contacts are maintained through liaison officers appointed by each institution. Working groups have been set up to help develop common positions and practices.

In October 2010 the Court hosted the annual **Contact Committee meeting** in Luxembourg, chaired by the French SAI. The main focus of the meeting was a seminar on the role of national parliaments after the adoption of the Lisbon Treaty.

Throughout 2010, the Court participated actively in the various **working groups** established by the Contact Committee. The working group on common auditing standards, which aimed to develop common auditing standards and comparable audit criteria based on internationally recognised auditing standards tailored for the EU area, was chaired by the Court and concluded its work in 2010.

In 2010, the Court started a pilot project involving **coordinated compliance audits** of EU agriculture spending with the SAIs of the Netherlands and the Czech Republic. The pilot project will be completed in 2011.

Network of the SAIs of candidate countries and potential candidate countries

The Court actively participated in meetings of the Network of the SAIs of the candidate and potential candidate countries (Turkey, Croatia, the former Yugoslav Republic of Macedonia, Iceland, Montenegro, Albania, Bosnia and Herzegovina and Serbia)⁴, which run in parallel with the meetings of the Contact Committee.

In 2010, two new members joined the Network – Iceland and Serbia. The main goal of the Network is to promote audit activities, especially in implementation of new audit methods and techniques in compliance with international standards and best EU practice.

⁴ As at February 2011.

Other cooperation

The Court continued its active involvement in, and contribution to, the improvement of international auditing standards and practices through its participation in international organisations for public audit institutions, notably INTOSAI⁵, and its European regional group, EUROSAI.

A Court delegation participated in the **XX INCOSAI Meeting** held on 22-27 November 2010 in South Africa, which was dedicated to discussing the issue of “Value and benefits of the Supreme Audit Institutions” and “Environmental Auditing and Sustainable Development”, as well as formally approving new International Standards of Supreme Audit Institutions (ISSAIs).

⁵ International Organisation of Supreme Audit Institutions.

NEW INTERNATIONAL STANDARDS OF SUPREME AUDIT INSTITUTIONS (ISSAIs)

The adoption by XX INCOSAI Meeting in South Africa of over 40 new ISSAIs and INTOSAI GOVs represents a major step forward for the profession. INTOSAI now – for the first time – has a comprehensive framework of international auditing standards. The framework includes standards setting out the fundamental principles of SAIs, the pre-requisites for the proper functioning of an SAI, auditing principles and auditing guidelines.

The new standards provide a reference point for all public sector auditing against which SAIs can measure their own performance. The Court made a significant contribution to their development, in particular, through its active participation in the subcommittees on financial audit, compliance audit and performance audit.

Since becoming a full member of INTOSAI in 2004, the Court has **actively participated** in the subcommittees on auditing. The Court also provided input to the subcommittees on promoting best practices and quality assurance through voluntary peer reviews, and has promoted increased capacity-building activities among INTOSAI members.

Since 2008 the Court has chaired the working group on accountability for, and audit of, **disaster-related aid**. A main aim of this working group is to develop guidance and to identify and disseminate good practices in the area of accountability for disaster-related aid, concentrating on activities directed to stakeholders (multilaterals, aid organisations, governments, private auditors). The interim report of the working group was submitted to the INTOSAI Congress in November 2010.

During 2010 the Court also contributed to the INTOSAI taskforce on the **global financial crisis**.

The Court is represented on the EUROSAI working groups on environmental audit and on IT, and participates in the EUROSAI training committee. Furthermore, the Court participated in the working group preparing a good practice guide to achieving quality within an SAI, which was set up by the VII EUROSAI Congress in 2008. The Court is also one of the auditors of EUROSAI.



OUR MANAGEMENT

IMPLEMENTING THE STRATEGY FOR 2009 TO 2012

In recent years, the Court has been engaged in an internal reform process, following a self assessment and a peer review (in 2008) of the Court's audit management framework. As a result, we developed a strategy for 2009 to 2012⁶ to address the areas for improvement identified, setting as the overall goals for the period:

- to maximise the overall impact of audits; and
 - to increase efficiency by making best use of resources.
- Many of the priority actions in the strategy have been completed. The remaining actions will be carried out during 2011 and 2012. The main achievements in 2010 were:
- meeting the target of delivering 12 to 15 performance audit reports per year;
 - developing new products - a paper on risks and challenges for the new Commission (Opinion No 1/2010) and a new system established to report, from 2012 onwards, on the follow-up given to the Court's recommendations;
 - revising the Court's internal rules in order to streamline decision making by introducing Chambers, and to strengthen governance;
 - producing a full set of performance indicators;
 - further developing the approach used for the annual audit of the implementation of the EU budget (the DAS), based on the recommendations of an internal 'think-tank' supported by external experts;
 - re-allocating a number of posts from support services to audit.

⁶ The "Audit Strategy 2009-2012" is available on the Court's website.

NEW INTERNAL RULES ESTABLISHING CHAMBERS

One of the main recommendations of the Court's reform process was that the Court should implement the option provided in Article 287(4) of the Treaty for Chambers to adopt certain categories of reports and opinions, while maintaining collegiality.

After approval by the Council of the necessary amendments to the Court's Rules of Procedure, Chambers were established on 1 June 2010. Chambers, composed of Court Members, adopt special reports, specific annual reports, and opinions on draft legislation. Previously all such reports and opinions were adopted by the full college, and this continues to be the case for the annual reports on the EU budget and the EDFs.

While most of the Court's reports are now adopted by Chambers, the Chambers may refer their documents to the Court for adoption. All Members may participate, in a non-voting capacity, in the meetings of the Chambers to which they are not assigned.

The Members of the Court



MEASURING THE COURT'S PERFORMANCE IN 2010

Since 2008 the Court has been progressively developing a set of key performance indicators (KPIs) to:

- inform **management** of progress towards achieving the goals for the 2009-2012 period;
- support **decision-making**; and
- provide information on performance to the Court's **stakeholders**.

The indicators aim to measure key elements of:

- the **quality and impact** of the Court's work, paying particular attention to the view of key stakeholders; and
- the **efficiency and effectiveness** of the Court's use of resources.

As the first year in which a full set of the indicators is available, 2010 provides a benchmark against which we will assess progress in the future. The Court is very encouraged by the results of its key performance indicators in 2010, particularly on the quality and impact of our work. More importantly, the indicators provide a good basis for identifying where progress is required, and the issues to be addressed in order to improve future performance.



Quality and impact of the Court's work

The Court assesses the quality and impact of its reports based on stakeholder appraisals, expert reviews, and following-up the recommendations it makes.

Stakeholder appraisal

Using a survey, the Court invited the principal users of its reports (the Committee of Budgetary Control of the European Parliament and Budget Committee of the Council) and its principal auditees (mainly staff of the European Commission) to rate the quality and impact of the Court's annual reports (general budget and EDFs) and special reports published during 2009. Respondents to the survey used a five point scale (1 – very poor, 2 – poor, 3 – adequate, 4 – good, 5 – very good).

	2010	Target
Principal user appraisal of the quality and impact of the Court's reports	4,2	≥ 4
Auditee appraisal of the quality and impact of the Court's audits	3,7	≥ 4

This result indicates that on average the principal users of the Court's reports consider them as 'good'. The Court aims to maintain or improve on this level of performance.

Expert reviews

Two external parties have reviewed the content and presentation of a sample of the Court's reports published in 2009 and 2010. The reviewers assessed eight special reports and the annual report on the general budget and on the EDFs in each year and rated the quality of various aspects of the reports on a four point scale ranging from 'significantly impaired' (1) to 'high quality' (4).

	2010	Target
External experts reviews of the content and presentation of the Court's reports	3,0	≥ 3

The result indicates that the reviewers consider the quality of the Court's reports as "satisfactory". The reviews have provided valuable information and the recommendations they give will be used to improve the quality of future reports.

Follow-up of recommendations

The key way the Court uses its audit experience to contribute to improving financial management is through its recommendations. To lead to change, the Court's recommendations first need to be accepted by auditees, and then implemented. The indicator is based on the recommendations in the annual reports and special reports published in 2009 – the most recent available.

	2010	Target
Percentage of audit recommendations accepted by the auditee	90 %	≥ 90 %

The Court aims to maintain, or even improve on, this high level of acceptance of its recommendations.

In 2010, the Court set up a system for monitoring the implementation of recommendations by auditees. In future years, this should provide the basis for a further indicator on the extent to which recommendations are implemented in practice and lead to improvements. It will also provide useful information for the Court to improve the quality of the recommendations it makes, and hence their acceptance by auditees.

Efficient and effective use of resources

The Court assesses the efficiency and effectiveness of its use of resources in terms of its ability to: produce timely reports and findings; meet its obligations regarding financial management; and ensure the well-being and professional competence of its staff.

Timeliness of reports

The Court aims to adopt all its planned reports within the deadlines set. For the publication of annual reports and specific annual reports there are statutory deadlines to respect. For special reports - where there is no statutory publication deadline - the planned adoption date is used as the deadline.

	2010	Target
Number of reports adopted compared to planned	90 %	100 %
Number of reports adopted on time	80 %	100 %

Overall, the Court did not meet the target in 2010. Performance against plan is comparable to 2009 (91 % of reports were adopted as planned) and, although there has been an improvement in the number of reports adopted on time in 2010 (80 % compared to 67 % in 2009), there continues to be scope for better performance. Whereas all annual reports and all but one specific annual reports were adopted according to plan and published within the deadline, only three special reports were adopted within the deadlines set. Six special reports were delayed until 2011.

The Court aims to attain the targets by the end of 2012 by taking further measures to improve the management of the delivery of special reports.

Timeliness of findings

Statements of preliminary findings (SPFs) enable the Court to confirm the factual accuracy of the main findings (which form the basis of the resulting audit report) with its auditees. Issuing SPFs is, therefore, a key milestone in the audit process. It is an area where significant room for improvement was identified in previous years, and where the Court has set the target to issue 80 % of SPFs within two months of the related audit visit by the end of 2012.

	2010	Target
Percentage of Statements of Preliminary Findings issued on time	54 %	80 % by 2012
Performance in 2010 is not yet at the required level but there has been significant progress towards the target in the last two years (43 % in 2009 and 27 % in 2008). The Court will continue in its efforts to ensure the target is met.		

External appraisal of financial management

The Court seeks to receive an unqualified opinion on the financial statements and on the use of resources from its external auditor as well as to be granted discharge by the European Parliament after a positive recommendation from the Council.

	2010	Target
Unqualified opinion of the external auditor and discharge granted	Yes	Yes

Professional training

Following guidelines published by IFAC (International Federation of Accountants), the Court aims to provide an average of 40 hours (5 days) of professional training per auditor per year.

	2010	Target
Average professional training days per staff member	5,7 days	≥ 5 days

Performance was at the required level in 2010, and represented an improvement on 2009 (average of 4 days).

Staff satisfaction

According to an internal survey in 2009 on staff satisfaction, 86 % of the Court's staff are generally satisfied with their job. The overall average staff satisfaction was rated as 2,8 on a composite scale from 1 to 4, where anything over 2,5 indicates general satisfaction. The Court aims to maintain or improve on this result when a similar survey is conducted at the end of 2012.

SUPPORTING AUDIT

The success of the Court's audit activities depends, to a great extent, on the quality of its specialised support services. These services provide the logistical and technical expertise that enable the Court to:

- recruit, retain and motivate its **staff** and develop their professional skills;
- communicate the audit results in all **official languages** of the EU;
- use **information technology** to best effect;
- manage its **budget** and maintain its **facilities**; and
- conduct **missions** in all the countries in which EU funds are spent.

Human resources

Staff allocation

The Court's main asset is its staff. On 31 December 2010, the Court had an authorised staff allocation of 889 officials and temporary agents (not including Members, contract agents, seconded national experts and trainees). 557 of these are in audit chambers (including 123 in private offices of the Members), 151 in translation, 157 in administrative support and 24 in the Presidency.

To contribute to the goal of making best use of resources, all activities in 2010 continued to look for and introduce efficiency measures based on the simplification of procedures and streamlining of services. Whenever possible, non-audit posts made available through efficiency gains were redeployed to audit, resulting in an increase of 6 % in the number of posts dedicated to audit tasks. This process will continue in 2011.

Breakdown of Court posts at 31 December	2008	2009	2010
Audit Chambers	501	525	557
Translation service	163	163	151
Administrative support	173	171	157
Presidency	20	21	24
Total	857	880	889

Recruitment

Court staff have a broad range of academic and professional backgrounds, and the quality of their work and their commitment is reflected in the institution's output. The Court's recruitment policy follows the general principles and employment conditions of the EU institutions, and its workforce comprises both permanent civil servants and staff on temporary contracts. Open competitions for posts at the Court are organised by the European Personnel Selection Office (EPSO). The Court also provides a number of traineeships to university graduates for periods of three to five months.

In 2010, the Court recruited 97 employees: 63 officials, 25 temporary agents and 9 contract agents. The Court was particularly successful in recruiting new staff to audit posts. There were 44 vacant posts as at 31 December 2010, significantly fewer than in 2009 (73). This brought the **vacancy rate below 5 %** for the first time.

Gender balance

Staff now comprises men and women in equal proportions, after a gradual increase over the years in the proportion of women employed.

The charts below show the proportion of men and women by level of responsibility at 31 December 2010. Like the other EU institutions, the Court applies a policy of equal opportunities in its human resources management and recruitment. 20 of the 67 directors and heads of unit (30 %) are women, which is a steady increase on previous years. Most are, however, employed in the translation directorate and in the administrative departments.

Gender balance

	Male	Female
2001	54 %	46 %
2010	50 %	50 %

Assistants (AST level)

	Male	Female
2009	27 %	73 %
2010	31 %	69 %

Auditors - administrators (AD level)

	Male	Female
2009	63 %	37 %
2010	62 %	38 %

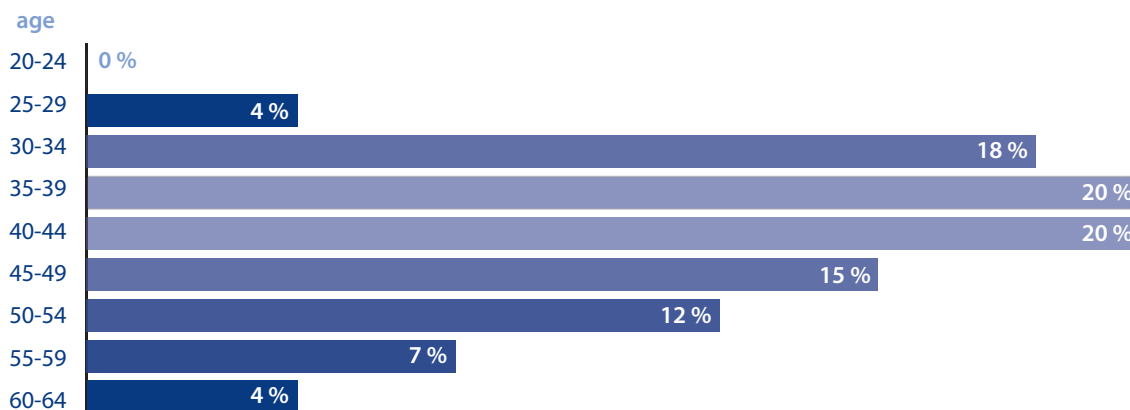
Directors and Heads of Unit

	Male	Female
2009	74 %	26 %
2010	70 %	30 %

The proportion of women at AD level is increasing due to recruitment. After the latest recruitment campaign, 45 % of all staff at AD5 to AD8 levels are female.

Age profile

The age profile of staff in active service at 31 December shows that 62 % of the Court’s staff members are aged 44 or less.



24 out of the 67 directors and heads of unit are aged 55 or above. This will lead to a significant renewal of senior management over the next 5 to 10 years.

Professional training

The audit profession requires continuous training to allow staff to keep abreast of developments and develop new skills. Furthermore, the particular nature of the Court's audit environment creates a need for auditors with good linguistic abilities.

In 2010, the Court's staff each received an average of 9,3 days of professional training. Language courses represented 57 % of the total number of days devoted to training in 2010, compared to 55 % in 2009. In addition to language training, auditors devoted 5,7 days to professional training in 2010 thus meeting a key target of the institution.

In line with the directional plan for training for 2008–2011, and the 'training paths' adopted in 2009, the Training Unit has improved the content of training and developed new courses in 2010 following the priorities decided by the Court. In addition, the Court continued its successful cooperation with the other institutions and interinstitutional bodies such as the European Administrative School.

Translation

Translation is an audit support activity which enables the Court to fulfil its mission and to meet its communication objectives. In 2010, the total volume of translated work was comparable to the 2009 workload. Over 99 % of translation services were performed on time.

During 2010 efforts have been made to implement the redeployment plan decided by the Secretary-General with a view to transferring translation posts and staff to the audit services in 2011.

The Court's Translation Directorate also provided crucial linguistic support to auditors on missions and during the successive phases of the drafting of audit reports. Support was also provided to INTOSAI working groups and for other specific needs related to the Court's audit activities. Work continued in 2010 on the Artemis project to improve the functionalities of the principal IT application used by translators. The Court's Translation Directorate was also active in inter-institutional and international professional forums.

Information technology

Information technology (IT) is an enabler for meeting the overall goals of the Court's strategy for 2009 to 2012. In 2010, the Court:

- adopted a collaboration platform, in line with the strategic IT plan 2010-2012, to support knowledge sharing, notably, in the core audit activity;
- continued its efforts to optimise and simplify internal processes supported by electronic workflows, to improve efficiency and effectiveness; and

- deployed smart phones and portable computers to allow audit work to be performed efficiently wherever and whenever required and also as part of the Court's business continuity arrangements.

These developments have been carried out while reinforcing the security of operations and business continuity provisions in order to guarantee the requisite availability and quality of all the Court's IT services.

Administration and facilities

The Finance and Support Directorate's mission is to provide the Court's auditors in an efficient, effective and timely manner with appropriate support services and to ensure that the necessary financing, internal controls and accounting mechanisms are in place to support all of the Court's activities.

In 2010, the Directorate continued to focus on further improving efficiency and effectiveness in order to release resources for redeployment to audit.

Following an agreement reached with the budgetary authority towards the end of 2008 on the financing of its K3 building, a major activity in 2010 was the preparation and launching by its project manager, of calls for tenders for the construction work and associated services. A significant part of the procurement for this project was completed during the year. The construction of the building is on schedule and within budget; it is expected to be completed by the end of 2012.

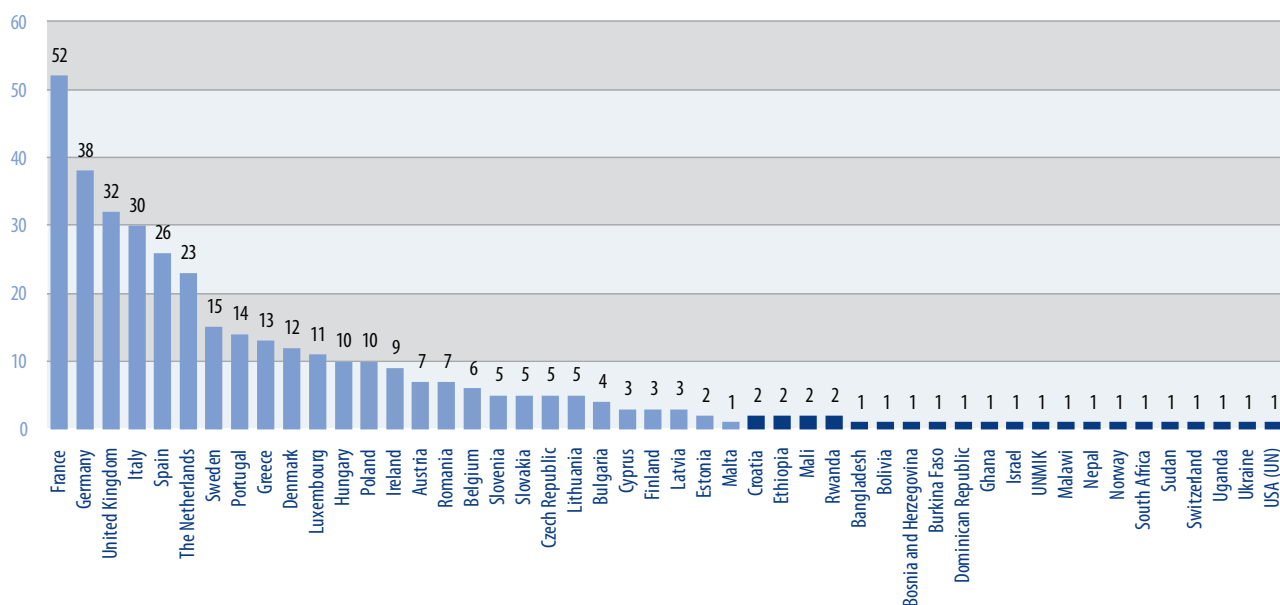
Audit missions

The Court's audit work requires auditors to make visits (known as 'missions') to Member States and other recipients of EU funds as well as to the headquarters of international organisations, such as the UN. In 2010 it undertook a total of 376 audit missions – 351 to Member States and 25 elsewhere – compared with 336 in 2009. This near 12 % increase in missions despite only a small number of additional posts for the Court as a whole reflects the increased resources devoted to audit.

Missions are normally to central and local administrations involved in the processing, management and payment of EU funds and to the final beneficiaries who receive them. Audit teams generally comprise two or three auditors and the length of an audit mission is usually up to two weeks, depending on the type of audit and travelling distance.

Audit visits within the EU are often made in liaison with the supreme audit institutions of the Member States concerned, who provide useful logistical and practical support.

2010 MISSIONS



FINANCIAL INFORMATION

The European Court of Auditors is financed by the general budget of the European Union. Our budget represents around 0,1 % of total EU spending, and less than 2 % of total administrative spending.

Implementation of the 2010 budget

2010 FINANCIAL YEAR	Final appropriations	Commitments		Payments
			% use (commit./appr.)	
1 000 euro				
Title 1: People working with the institution				
10 - Members of the institution	13 364	12 980	98 %	12 687
12 - Official and temporary staff	94 245	87 459	93 %	87 104
14 - Other staff and external services	4 604	3 590	78 %	3 567
162 - Missions	3 450	3 231	94 %	2 775
161 + 163 + 165 - Other expenditure relating to persons working for the institution	2 861	1 887	66 %	1 435
Subtotal Title 1	118 524	109 147	92 %	107 568
Title 2: Buildings, movable property, equipment and miscellaneous operating expenditure				
20 - Immovable property	18 561	18 390	99 %	7 656
210 - IT&T	6 365	6 365	100 %	4 035
212 + 214 + 216 - Movable property and associated costs	834	771	92 %	701
23 - Current administrative expenditure	430	406	94 %	274
25 - Meetings, conferences	858	847	99 %	642
27 - Information and publishing	2 373	2 032	86 %	797
Subtotal Title 2	29 421	28 811	98 %	14 105
Total Court of Auditors	147 945	137 958	93 %	121 673

In 2010 the overall rate of implementation for the budget was 93 %. For Title 1 this rate was 92 %, with the lowest percentage (78 %) in Chapter 14 (Other staff and external services); this is mainly due to efforts to reduce costs. The average implementation rate for Title 2 was 98 %.

The amount of payments for Chapter 20 (Immovable property, e.g. buildings) is affected by the construction of the second extension of the Court, the K3 Building. The second tranche of financing of 11 million euro for this project was included in the 2010 budget; this amount has been committed and part paid in 2010. The balance of appropriations for the K3 building is carried forward to 2011 to cover contracts signed by the Project Manager on the Court's behalf with construction companies. The appropriations will be utilised in accordance with the submission made by the Court to the European Parliament and the Council in 2008.



Budget for 2011

The 2011 budget represents a decrease of 2,44 % on that for 2010, mainly due to the lower appropriations for the Court's new building (K3).

The total cost of the construction of the K3 building is estimated at 79 million euro, to be financed in five successive years: 55 million euro in 2009; 11 million euro in 2010; 7 million euro in 2011; and 3 million euro in 2012 and 2013 respectively.

BUDGET	2011	2010
	1 000 euro	
Title 1: People working with the institution		
10 - Members of the institution	12 930	13 364
12 - Official and temporary staff	95 957	94 246
14 - Other staff and external services	3 825	4 603
162 - Missions	3 652	3 450
161 + 163 + 165 - Other expenditure relating to persons working for the institution	2 485	2 861
Subtotal Title 1	118 849	118 524
Title 2: Buildings, movable property, equipment and miscellaneous operating expenditure		
20 - Immovable property	14 611	18 518
210 - IT&T	6 500	6 365
212 + 214 + 216 - Movable property and associated costs	816	877
23 - Current administrative expenditure	422	404
25 - Meetings, conferences	893	868
27 - Information and publishing	2 240	2 389
Subtotal Title 2	25 482	29 421
Total Court of Auditors	144 331	147 945

AUDIT AND ACCOUNTABILITY

Internal Audit

The Court's Internal Audit Service assists the Court in achieving its objectives through systematic and methodical evaluation of risk management, internal control and management procedures. The Internal Audit Service also makes recommendations to improve efficiency based on evaluations of the effectiveness of the Court's internal control systems.

During 2010 the Court's Internal Audit Service: followed-up its previous years' recommendations; reviewed the reform of the Court's ex-ante verifications system; audited the implementation of the Court's SOS II/SAP system; and checked the compliance of the Court's closed circuit television system with data protection standards and requirements. Most recommendations were accepted and integrated into corrective action plans.

The Court's Audit Committee monitors the activity of the Internal Auditor and ensures their independence. It also discusses and takes note of the Internal Auditor's work programme and reports and requests (if necessary) the Internal Auditor to carry out audits of specific subjects.

Since 2009, the Court's Internal Audit Service has been positively certified in accordance with the internationally recognised standards of the Institute of Internal Auditors.

External Audit of the Court

The annual accounts of the European Court of Auditors are audited by an independent external auditor appointed by the Court. This is as an important element of Court's efforts to ensure it applies the same principles of **transparency and accountability** to itself as it does to its auditees.

The report of the external auditor – PricewaterhouseCoopers Sàrl – on the Court of Auditors' accounts for the 2009 financial year was published in October 2010⁷.

⁷ OJ C 279, 15.10.2010.

OPINIONS OF THE EXTERNAL AUDITOR – 2009 FINANCIAL YEAR

REGARDING THE FINANCIAL STATEMENTS:

“In our opinion, these financial statements give a true and fair view of the financial position of the European Court of Auditors as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002, the Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of the said Council Regulation and the European Court of Auditors’ Accounting Rules”.

REGARDING THE USE OF RESOURCES AND THE CONTROL PROCEDURES:

“Based on our work described in this report, nothing has come to our attention that causes us to believe that in all material respects and based on the criteria described above:

- (a) the resources assigned to the Court have not been used for their intended purposes;
- (b) the control procedures in place do not provide the necessary guarantees to ensure the compliance of financial operations with the applicable rules and regulations.”

DECLARATION BY THE AUTHORISING OFFICER BY DELEGATION

I the undersigned, Secretary-General of the European Court of Auditors, in my capacity as authorising officer by delegation, hereby:

- declare that the information contained in this report is complete and accurate; and
- state that I have reasonable assurance that:
 - the resources assigned to the activities described in this report have been used for their intended purpose and in accordance with the principles of sound financial management; and
 - the control procedures in place provide the necessary guarantees concerning the legality and regularity of the transactions underlying the accounts and ensure an adequate treatment of allegations of fraud or suspected fraud.

This assurance is based on my judgment and on the information at my disposal, such as the results of ex post checks, the reports of the internal auditor and the reports of the external auditor for previous financial years.

I confirm that I am not aware of anything not reported here which could be detrimental to the interests of the institution.

Luxembourg, 24 March 2011.

Eduardo RUIZ GARCÍA



Secretary-General

GOVERNANCE OF THE EUROPEAN COURT OF AUDITORS

The European Court of Auditors is the independent external audit institution of the European Union based in Luxembourg. The Court operates as a **collegiate body** of 27 Members, one from each Member State. Its Members are appointed by the Council, after consultation with the European Parliament, for a renewable term of six years. The Members elect one of their number as President for a renewable term of three years.

The Court is organised in **Chambers**, to which Members are assigned. The Chambers prepare reports and opinions for adoption by the Court. Audit Chambers I to IV cover different areas of revenue and expenditure, and the fifth, the CEAD Chamber, is responsible for horizontal issues. The Chambers are supported by Audit Directorates of staff. Following the 2010 revision of the Court's **rules of procedure**, certain categories of the Court's reports and opinions can be adopted by Chambers, rather than the full Court.

The **administrative committee** is chaired by the President and comprises the Deans of the Chambers and the Secretary General (the most senior EU civil servant of the institution, responsible for its administrative and support services). The committee plays a coordinating role and prepares Court decisions on issues of strategic planning, performance management and administrative matters.

Each **Member** is responsible for specific tasks, primarily within auditing. Members present audit proposal and reports on the tasks for which they are responsible at Chamber and Court level. Once a report has been adopted, the 'reporting Member' presents it to the European Parliament, Council and other relevant stakeholders. Members are supported by the staff of their private office and by the team assigned to the audit task.

