

## Subsidiarity, Accountability and the Management of EU Programmes

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The author acknowledges the support of the Carnegie Trust in carrying out this research.  
Paper to be delivered at European Community Studies Association Conference, Charleston, South Carolina, 11-14 May 1995

### Abstract

The Maastricht Treaty on Political Union (TEU) confirmed the principle of subsidiarity by which the implementation of Union policies should be allocated to the most appropriate level of administrative authority. This has been widely interpreted as a means of reining in the power of the European Commission in favour of national governments and their agents.

This raises a number of important issues concerning the management of Union programmes. Already under stress from what Metcalfe (1992, 1994) has termed the management deficit, the subsidiarity principle will arguable exacerbate existing weaknesses in the management process by allocating both day-to-day management and review and evaluation functions to beneficiary agencies in the member states.

The objective of this paper is to analyse the implications of the devolved management of Union programmes for the desire for greater accountability expressed by the European Parliament, the Court of Auditors and the member state governments themselves. The paper focuses particularly on audit, and the management of the Structural Funds as a case study area.

### Introduction

The renewed interest in the principle of subsidiarity occasioned by the passage of the Treaty on European Union (TEU), has raised many issues concerning the relationships between the member states and Union (EU) institutions. In particular, it has focussed attention on their respective responsibilities in the management of EU programmes and on the lines of accountability stemming from those responsibilities.

The problems of managing EU programmes are long-standing and in many cases well-known, easily predating the current subsidiarity debate. In the field of the financial management, the issue has turned mainly on the question of fraud and irregularity - its level, causes and possible solutions to reducing it. Work by Tiedemann (1988), Norton (1986), Mennens (1986), Tutt (1989), Vervaele (1992), Mendrinou (1992), Levy (1990, 1991), the House of Lords (1989), Sherlock and Harding (1991), Passas and Nelken (1991), Huybrechts et al. (1994), Ruimschotel (1994) among others, as well as the European Court of Auditors (ECA) and the European Parliament over an extended period, has examined these issues in some depth. Legal experts have given opinions about how best Union funds might be protected, and the Commission has sought independent powers of its own to prosecute fraudsters in the member states. A special anti-fraud unit has been operative within the Commission since 1989 (UCLAF), with the European Parliament recently increasing its strength to seventy or so staff.

Given the predominance of agricultural price support spending within the EU budget with its legendary opportunities (real or imagined) for fraud, such a focus was inevitable. However, there has been a growing interest in other aspects of financial and managerial accountability within the EU, including value for money (VFM) auditing and programme evaluation. The deployment of these techniques is particularly significant, as they are specifically designed to measure the effectiveness of policies and their implementation. As such, they are useful to managers, policy makers and citizens. So far, this concern has been confined mainly to practitioners, although the debate about policy effectiveness measurement including review and evaluation, has now reached a wider audience in regards to the

Structural Funds (e.g. House of Lords, 1991 etc), the European Development Fund (EDF) and research and development expenditure.

This agenda is hardly unique to the EU. Indeed, it can be seen as part of the wider spread of the 'new public management' (Hood, 1991, Dunleavy, 1994), arguably feeding in particularly from practices pioneered and/or championed in the United Kingdom and elsewhere. Certainly, pronouncements about fraud and waste trumpeted at member state level, especially from the net contributors, has raised the profile of 'managerialism' within the Commission. Furthermore, it can be argued that the institutions or the EU are quite susceptible to the influences of international fashions and preoccupations in public management as they draw their ~staff from a wide variety of national traditions.

This has manifested itself most obviously in the regulations governing the Structural Funds (of both 1988 and 1993) for example, in the revised Financial Regulation of 1990 with its commitment to the 'principles of sound financial management - in particular those of economy and cost effectiveness' (Financial Regulation, 1990, Art. 2) - and in the Treaty on European Union (TEU). With the requirements for review and evaluation feeding through to implementing and beneficiary agencies in the member states, an increasing flow of evaluation studies has been reaching the Commission as a result (some 300 plus on the Structural Funds alone).

At the same time, there has been increasing talk of a 'management deficit' in the EU institutions (principally the Commission), to match the so-called 'democratic deficit' (Metcalf, 1992 1994). Taken together, these two add up to a wider 'accountability deficit' of considerable proportions. It is our objective to explore the managerial aspects of the accountability deficit insofar as they are affected by subsidiarity, by reviewing VFM audit relationships within EU programmes and giving a particular focus to the Structural Funds. Using documentary sources and fieldwork interview material, the paper will initially discuss the nature of the management deficit in the context of different models of subsidiarity, and propose a model of managerial, audit and accountability relationships. It will then review the management audit of the Structural Funds as a case study.

#### Subsidiarity and the Management Deficit

The precise meaning of the subsidiarity concept has been discussed at some length since the enactment of the TEU. Suffice it to say that one point on which most critics are agreed is that the concept is vague and ambiguous. While it is not our purpose to extend this debate here, we will consider the main definitional variants and their implications for managerial and accountability relationships in the EU. As commentators have pointed out, subsidiarity is not a new concept within the EU (e.g. Scott et. al., 1994, Duff, 1994, van Kersbergen and Verbeek, 1994), and it is thus unsurprising that it has been subject to various interpretations over the years. This is especially the case in the context of its ambiguous quality seeking to 'guard on the one hand against an excessive centralisation of government and, on the other, against its exaggerated dispersal' (Duff, 1994 27). This dichotomy is characterised by Cox as two separate views of subsidiarity - the liberal view which 'holds that all decisions should be taken whenever possible by the individual actors within a community' (Cox, 1994 136), and the supranational view where individual is preferred over collective action only if the former is demonstrably more effective than the latter in achieving desired objectives. The implications of the first model are a limited role for EU institutions and correspondingly greater powers of policy making, implementation and management for the member states. The second model on the other hand, suggests a greater role for the EU in the pursuit of common and collective goals at the expense of the member states.

Scott et. al. (1994) take a different approach to this problem by distinguishing between the procedural and substantive aspects of subsidiarity. They argue that in its procedural sense, it is an efficiency criterion to be used in determining the allocation of responsibilities for policy implementation, while as a substantive concept it 'should inform the making of policies which are designed to move the EC towards a closer European Union' (Scott et. al., 1994 50). As the onus is now on the Commission to prove that its every proposal meets the test of subsidiarity (in its procedural sense), it could be used as 'an instrument of Member States to protect national interests' (van Kersbergen and Verbeek, 1994 227). While that certainly may have been the intention of some member states, subsidiarity is in Duff's words 'a two edged sword' (Duff, 1994 29). As van Kersbergen and Verbeek also observe, it could be used by sub national authorities as a weapon against overweening centralisation at the national level.

As an efficiency criterion for implementation and management, subsidiarity has fascinating consequences. If it indeed results in pushing ever more managerial tasks down to member state level, what effect will that have on the managerial capacity of the commission? Will it increase or narrow the management deficit? Or will it have the effect of weakening national authorities and strengthening simultaneously the EU and local levels in areas of Union competence?

Before answering these questions, the EU's management deficit requires some clarification. In a general sense, Metcalfe (1992) defines it as the mismatch between management capacities on the one hand, and increased legal competencies on the other. Within the Commission, he focuses on the need for the establishment of performance indicators, and better coordination, information systems and strategic management capabilities. He also identifies the need for the Commission to create administrative networks in the member states (Metcalfe, 1992 118-9). Thus, the problem is essentially a lack of capability in the Commission. At another level, this view is reflected in the ECA's annual and special reports which have generally been scathing about the Commission's capabilities in the area of VFM audit (and indeed many others). The Court's critique (shared by the European Parliament) has been perennial. The 1982 special report on reduced price butter sales concluded that 'it is absolutely essential that the Commission adopt a permanent and reliable system of measuring the results obtained: this is not at present the case' (ECA, 1982a 20). Similarly, the 1984 special report on aid to third countries observed that 'the Commission and the member states only occasionally evaluate their projects once completed' (ECA, 1984 7), and in reference to regional aid, the 1986 annual report noted that it was 'regrettable that the Commission does not give greater priority to assessing the economic impact of the measures' (ECA, 1986 65). The 1987 report on food aid stated that 'in general, the Commission's monitoring of the implementation of the aid .... leaves much to be desired' (ECA, 1987a 13). In the 1993 annual report, the Court studied the programme of subsidised milk for schools and concluded that the Commission 'did not have any reliable information on, or assessments of the measure's effectiveness' (ECA, 1993 84).

Others have pointed to a loss of capability, directly attributable to the adverse impact of subsidiarity on the Commission's powers. It is argued that this has leached away at the direct implementation and control functions of the Commission in favour of the member state agencies in receipt of funds (also see Kok, 1989 347 and ECA annual reports for 1987 and 1989). Thus, direct beneficiaries have acquired responsibilities for reviewing their own performance and checking whether they are spending EU receipts in accordance with criteria laid down by the Commission.

While both views arrive at the same conclusion - namely, that the gap between the managerial capacities and responsibilities of the Commission is widening - they reach it from different directions. On the other hand, it may be argued that the application of subsidiarity to the management of EU programmes has simply resulted in the correct allocations of functions to level. In order to further explore these opposing views, we will review VFM audit and accountability relationships and then refer to Structural Fund management.

#### VFM auditing in the EU: Managers, Auditors and Clients

Traditionally, state audit has concerned itself with the financial regularity of government accounts and the compliance of expenditure with legal requirements (Caiden, 1981, Geist 1981, Fielden, 1984, Normanton 1981). The purpose of such audits was to provide an accountability focus on the activities of government (including instances of fraud) for legislators and citizens alike (Hill, 1981, Geist, 1981, Edds, 1981). It has been argued that this remit has been enlarged in recent decades to cover issues of performance and effectiveness (Fielden, 1984, Edds, 1981, Normanton 1981, Morse, 1981) - in other words, those areas which come under the general ambit of VFM.

The concept of 'bonne gestion financiere' (BGF) as defined in the 1990 financial regulation is the closest equivalent to VFM audit in the EU. While the regulation does not develop the idea to any great degree, it includes reference to 'economy and cost effectiveness'. It also encompasses the setting of quantified objectives and the monitoring of their achievement, and this accords closely with the notion of effectiveness defined by the NAO - viz., the 'relationship between intended results and the actual results of projects, programmes or other activities' (NAO, n.d. 5). As the Financial Regulation is generally applicable, all EU institutions are under an obligation to see that these principles are put into effect.

It will come as no surprise that the catalysts for VFM auditing in the EU are as numerous as they are diverse. This, coupled with the complex institutional relationships within the management of EU programmes helps explain the diversity of practice on the ground. Indeed, there is debate about not only who or what does VFM audit in the EU, but whether anyone does it at all (even if they think they do). The pressures for greater attention to VFM and related evaluation issues can be categorised under five general headings, viz: 1) institutional 2) legal and regulatory 3) political 4) financial 5) policy cycle.

The first of these has emanated from the 'accountability community', within the EU, principally the ECA and the Budgetary Control Committee (BCC) of the European Parliament. The ECA has been engaged in broad VFM work since its inception, evident in both its annual and special reports which have at the least raised awareness of VFM issues according to Commission sources. Acting mostly (although not always) in concert with the ECA, the BCC has also put pressure on the Commission through committee hearings and more significantly via the recommendations contained in the annual budget discharge decision. The latter have placed a series of obligations on the Commission to achieve VFM objectives. For example, in its discharge resolution of May 31

1993, the Parliament demanded 'increased monitoring, control and evaluation of operations by the Commission' of the Structural Funds, and for more ex ante evaluation generally (European Parliament, 1993).

The BCC also spends much of its time on straightforward regularity and legality issues such as fraud, payments under CAP regulations and Commission virements between accounts, which is perfectly understandable in the context of the committee's remit as an accountability rather than a management mechanism. The committee neither can nor should carry out VFM studies itself. The client base of the committee - namely, the EP generally, EU citizens (as voters) and the media - and the lack of technical expertise of the committee members themselves reinforce the accountability focus. Compared to full time permanent officials in the employ of the ECA, MEPs have a shorter term focus conditioned by the regular changes in the composition of EP committees and elections every five years.

In addition, the spread of multi-annual programming from the EDF to other areas of EU spending since 1984 (principally research and development and structural actions), has encouraged the development of review activities scarcely possible under annual budgeting arrangements. Since the establishment of the system of 5 year financial perspectives (first at Brussels in 1988 and then at Edinburgh in 1992), the idea of multiannuality has become generalised. The certainties of this system compared to the uncertainties of the simple model of annual budgeting arguably make it much more worthwhile for decision makers and implementers in the Commission and the member states to carry out VFM audit work.

Legal and regulatory requirements have already been referred to in regard to the Financial Regulation of 1990 and the Structural Fund Regulations of 1988 and 1993. The latter put multiple responsibilities on both the Commission and the implementing agencies in the member states to conduct review, monitoring and evaluation activities, including cost effectiveness studies. Funding recipients must stipulate what arrangements they have made for such activities in the Community Support Framework documents that they submit to DG16 for approval. These proposals are in turn vetted by the appropriate evaluation unit in DG20 (Financial Control) which can refuse endorsement if review and evaluation schedules are deemed insufficient.

Having plans for review, monitoring and evaluation is one thing, but executing them is quite another. We will return to this later when we review the work of the Commission Directorates. It is clear that the development of the VFM agenda is as much about a change in organisational cultures as regulatory requirement. We can see this by looking at the 1977 Financial Regulation which, while nowhere near as specific as the 1990 regulation on 'VFM', does state that the 'budget appropriations shall be used in accordance with the principles of economy and sound financial management' (Financial Regulation, 1977, Art. 2), and requires both the Commission (in Art.10) and the ECA (in Art. 80) to ensure that financial management has been sound. While many in the ECA would argue that the Court has tried to pursue this objective since inception, it would be difficult to confirm that these concerns were shared elsewhere to any great degree until much more recently. Thus, the modifications to the Financial Regulation can be seen as both a catalyst of change and a consequence of the desire for change.

This leads us on to the other three drivers for change we have identified. At the political level, there has been a growing pressure from the net contributors to the budget (the U.K. and Germany in particular), for greater financial accountability. As the number of member states who are net

contributors has increased, so the demands have intensified. It is significant for example, that the French government is now starting to raise these concerns as it is set to become one of the largest net contributors (see article by Prime Minister Edward Balladur in 'Le Monde', 30 November 1994). With the accession of Austria, Sweden and Finland on January 1 1995, it is quite possible that the net contributors to the budget will outnumber the net beneficiaries for the first time ever. This will create a potential coalition for further change until the next enlargement which will in all probability reverse the balance again.

The political and financial pressures are closely linked. On the one hand, member states' own public expenditure programmes have been subject to restraint and control over an extended period, and there has been a growing interest in VFM audit as a result. Added to this is the requirement in the TEU that national budget deficits must be limited to 3% of GDP in the run up to the achievement of monetary union. This has gone hand in hand with the rapid growth in spending on EU programmes (particularly on the Structural Funds), which has increased from around 3 billion ECU in 1970 to a total of about 70 billion ECU in 1995. agreement to raise finance for these programmes from the member states has been accompanied by exhortations to secure effective use of the money - especially from the net contributors.

The policy cycle influence is technical rather than political in nature, as it is based on a model of organisational development which progresses through temporal phases. As some commentators have observed, while performance review/ VFM audit is often associated with conditions of fiscal constraint or where 'accountability' norms predominate within government, programme evaluation is more prevalent when policy making/ spending norms are ascendant (Ball and Monaghan, 1993, Fielden 1984, Hopwood, 1984, Rossi and Freeman 1989, Shick, 1988). A number of officials observed that the EC/EU was concerned in its early years with formulating and developing policies and the systems to implement them. The focus was on the production of the appropriate policy instruments and the funds with which to deliver them. Indeed, the recent House of Lords report on 'Financial Control and Fraud in the Community' refers to the predominance of a spending culture within the Community (House of Lords, 1994). Within such an organisation, the influence of control and accountability imperatives is quite weak. As programmes start to produce outputs however, accountability and control issues assume much greater significance. Resources are reallocated from policy design to policy control and evaluation, and so a gradual change in the culture and structure of the organisation occurs - more prosaically, systems theory explanations of organizational behaviour triumph over rationally choosing bureau maximisers!

We will now turn to the locus of VFM audit within the system of financial management of the EU. According to Strasser, the control system for the Community budget is analogous to a square made up of the Commission, the Council, the EP and the ECA on each of the four corners. As far as VFM audit is concerned, it is the ECA rather than the Commission which is responsible (Strasser, 1992 278-280). However, Strasser also observes that the management of EU finances is of three types - direct (by the EU itself, principally the Commission), decentralised (by member state agencies) and shared (between EU and member state agencies) (Strasser 1992, 218-9). In this case, there may well be other sites where VFM work is conducted.

In order to identify more precisely the patterns present in the administration of the Common Agricultural Policy (CAP) in the UK, we developed a grid setting out relationships between the different actors (beneficiaries, national and EU agencies) in the audit and accountability process. We have now adapted this grid into a matrix which identifies the general pattern of interaction between managers, clients and auditors in VFM audit of EU programmes.

This is a complex system with a great many actors and cross cutting patterns of accountability and audit. The three basic groups involved are (a) those responsible for managing the programmes, (b) those auditing them and (c) the clients for the audit results. On the face of it, the simplest and most coherent group is the 'Manager' group which is linked together from supranational down to local level by the programme concerned and its particular regulatory framework. The 'Auditors' group is more numerous and does not fit together quite so well. The position of national audit bodies (such as the NAO) is problematic, as it has proved difficult for both technical (different audit methodologies) and political (different accountability clients) reasons to incorporate them formally into any EU VFM (or

any other) audit process. The 'Client' group is both extremely diverse and unstructured insofar as its members are present at all levels of programme management and have different requirements from each other. Given that the client group drives the demand for audit which the auditors then visit on programme managers, it follows that diverse client group audit needs impose themselves on managers in a fairly direct way.

Indeed, there is an inverse relationship between the size of the audit aperture (i.e. the potential number of auditors) and the position in the managerial hierarchy. The more local the level of management, the greater the number of auditors potentially involved. For example, local project managers in receipt of structural funds could be subject to VFM audit by their own programme management committee in the locality, national ministry /agency auditors, national audit bodies, DG16 auditors, DG 20 auditors and the ECA.

The ECA stands out as the unifying common element in the 'Auditors' group, but its work is variable in both content and methodology. The particular problems in devising a common framework for VFM in the Court have included the wide variation in the programmes audited, the different budgetary frameworks of those programmes (e.g. until 1984, the EDF was the only programme with a multi-annual design), idiosyncratic administrative 'cultures' in different member states (and in parts of the Commission), the failure of programmes to specify objectives which can be measured against achievements, and the structure of the Court itself. As a 12 (now 15) member body, individual autonomy is prized, and this includes the freedom to draw on distinct national traditions and approaches to audit. A common framework detracts from this freedom. While most would agree that the Court is now closer to a common VFM framework than has ever been (although still not very close perhaps), the new requirement for a statement of assurance on the Union's accounts could slow the pursuit of VFM work: certification audit is based on sampling rather than systems analysis techniques and will divert resources away from VFM.

As the Financial Regulation has general applicability, the Commission also has a responsibility for ensuring BGF. The organisational issue is who or what within the Commission should be conducting such audits. From the ECA's perspective, there is an element of territoriality involved. In the Court's early study of the Community's financial system, it was argued that the ECA and DG20 'should complement rather than simply duplicate each other' (ECA, 1981 45). Referring to the role of DG20, the 1989 annual report commented on the 'limited effectiveness of the financial control...and the virtual impossibility of verifying a priori whether the principles of sound financial management have been observed' (ECA, 1989 36). The Court argued that the Financial Controller should be relieved of 'his responsibilities concerning ex-ante control of sound financial management' (ECA, 1989 41), and be confined to the role of an internal auditor. The Court has argued that DG20 cannot both authorise expenditure and then check up on those decisions ex post facto. While the latter would not be incompatible with an ex-post VFM function, Court officials have remained skeptical about DG20's capacity in this area. Court sources have estimated that the ECA devotes five times as much effort to organising VFM work as DG20 does.

Needless to say, officials in DG20 do not share these views. DG20 has resisted any move to take away its ex-ante authorisation powers (visa prelab), and has established a special Cost Benefit and Cost Effectiveness Studies Unit to help the specific control units in DG 20 advance the principles and practice of BGF within the Commission as a whole. Indeed, it shares this responsibility with DG19 (Budgets), through the advance financial statements which line managers in the spending DGs have to submit to DGs 19 and 20. These include a statement of objectives, cost effectiveness and evaluation arrangements of the project concerned and are later (in theory) checked against final account statements. However, the two biggest budget items - CAP guarantee and Structural Funds expenditure - are as yet excluded from this system.

As in the case of the Court, this is VFM audit once removed, as it is really an audit of the VFM arrangements put in place by spending DGs (and ultimately by programme managers in the member states). It is not a methodology as such, but rather a series of questions to managers. Insofar as this system puts the onus on line managers to ensure that VFM is achieved, it could be a catalyst for a radical change in culture. On the other hand, the submission of financial statements in the required format can become a mere exercise in bureaucratic processing without any real substance if there is no effective follow-up later. This process is still in its early stages in the Commission.

Specialist auditors from DG 20 also participate in audit visits with host DGs (e.g. DGs 5 and 16 in the case of the Structural funds, DG6 in the case of agriculture), and some of these visits involve auditing

VFM arrangements. Practices vary considerably according both to programme area (and hence from DG to DG), and member state. It is self-evident that the audit of a complex series of entitlement programmes based on daily market management (i.e. CAP guarantee) is a very different proposition to the audit of carefully framed multiannual programmes (e.g. the Structural Funds, Research and Development or the EDF). Different legislative requirements, Commission-beneficiary relationships and organisational cultures further complicate the picture. For example, DG8 (responsible for the EDF), has developed a system of programme evaluation (the project cycle management model), including VFM audit, which is not used elsewhere in the Commission. The DGs responsible for the Structural Funds have to manage VFM arrangements at a distance via regulations which place obligations on the implementing agencies in the member states. Thus, DGs 5 and 16 essentially delegate the tasks to the member states and check their arrangements. On the other hand, DG12 (responsible for scientific research and development) audits beneficiaries directly having developed its own form of ex-ante financial monitoring well in advance of the system now deployed by DS20.

While each DG tends to regard its own system as superior, external bodies are not so partisan. The ECA's criticisms of development aid management made in its 1991 annual report for example, were reiterated in a recent House of Lords report. In addition to the often sloppy formulation and execution of projects and project evaluations identified by the Court, the report noted that only 12 permanent staff in the Commission were employed on evaluation work in this sector (although there were plans to raise this number) (House of Lords, 1993 15).

It may seem paradoxical that an apparent audit overload co-exists with the 'management deficit' identified by Metcalfe and some of the respondents in this research. However, in the context of increased spending and the devolution of programme management to beneficiaries, it is not difficult to see why the amount of audit activity has proliferated. For their very different reasons, the actors in the implementation process have a direct interest in this.

### Managing the Structural Funds

Nowhere are these observations more applicable than in the case of the management of the Structural Funds. The Commission does conduct its own ex post evaluations (usually via external consultants) of programmes, and monitors in situ through audit visits both by DGs 5 and 16, and DG 20 (Financial Control). According to the ECA, the Commission's earlier efforts at monitoring left much to be desired. The special report on European Regional Development Fund (ERDF) job creation programmes later in 1982 focused on the effectiveness of the provisions' (ECA, 1982b 2), and identified a 'considerable gap between forecasts and actual results' (ibid. 12). Consequently, if objectives were only partially fulfilled.

Since 1990, the Commission has produced an annual report on the implementation of the Funds, which for the most part provide commentary on how the member states have set about fulfilling the requirements for implementation and evaluation, the take up of funds and the Commission's own actions. It is clear from the early reports that the Commission tried to ensure VFM evaluation by the member states by building it in at the outset, at the stage of formulation of the Community Support Frameworks (CSFs). As the 1990 report noted, the 1988 legislation required both ex ante and ex post evaluation. The Commission also sought to establish 'a generalised methodology of assessment' as no single pattern was emerging from the external consultants reports sponsored by the Commission or the member states initial CSF submissions (European Commission, 1990 63).

However, this objective was not achieved. The 1992 report observed that it had 'proved difficult to carry out...(and) consequently, the approach taken is based on what is eligible' (European Commission, 1992 24). Undaunted by failure at the ex ante stage, DG16 then launched a series of thematic mid-term evaluations covering all areas of the CSFs, while DG 20 continued with its 'programme of on the spot checks centred on the systems of monitoring and financial inspection' (European Commission, 1993 72).

This situation was less than satisfactory from a VFM point of view, and it is significant that the Commission took a number of steps to improve matters for the new round of the Structural Funds due to commence in 1993/4. It sponsored the MEANS pilot study in 1992 'in order to arrive at a better match between the methods used to evaluate structural policies' (ibid., 82), and the cost-benefit analysis unit of DG 16 introduced a pro-forma guidance note for member states for the formulation of their CSFs to achieve a more consistent approach. With the member states, it also sought to define

'financial, physical and economic impact indicators' (ibid., 92), and DG 20 has conducted an audit of evaluation systems used by the member states on Structural Fund programmes.

The view taken by both the Commission and the ECA of the member states' own efforts to secure VFM objectives has generally been negative, although less so in the case of the Commission, as the Monitoring Committees responsible for managing the CSFs locally each have a Commission representative on them. The 1993 ECA annual report observed that there had been 'little evidence of real improvement' in the financial management of the reformed Structural Funds at the member state level, citing weaknesses in 'planning, coordination, monitoring and evaluation' (ECA, 1993 67). It is clear that there are major variations across the member states depending on the sophistication of local administrations. In Greece and Ireland for example, there was little evidence that any evaluation was done in the first round of structural funding (House of Lords, 1991), but even the most mature systems come in for criticism (e.g. the initial CSF proposals submitted by the U.K. in 1993 for Objective 1 regions were subject to considerable revision).

The view from the member states is rather different. They generally criticise the Commission rather than their own arrangements for VFM evaluation. As Bruce Millan, the former Commissioner for Regional Policy observed in his evidence to the Select Committee on the European Communities 'we are under a lot of pressure to set up a new evaluation mechanism ... the member states do not appreciate (our involvement) very much. They would rather like to be left to get on with things under their own steam' (House of Lords, 1991 96). Thus, it is not surprising that the U.K. government for example, has characterised the Commission's procedures as overly bureaucratic and interfering, and has accused the Commission of looking for excuses to increase its own control through bolstering its initiative programmes such as RECHAR (House of Lords, 1991 22-3, SAUS, 1992). The Commission has also been criticised for poor internal coordination of the Structural Funds and its failure to carry out ex post facto evaluation of European Social Fund actions (House of Lords, 1988 50, and 1991). Arguably, the root of the problem is the concept of 'partnership' between Commission and member states which is a key element in the reformed Structural Funds. Given that Structural Fund subventions are supposed to part-fund only (usually 50%, but up to 75% in the case of Objective 1), it is hardly surprising that member states may wish to carry out their own evaluations on their own terms. There are three caveats however: as already argued, some member states do not have the capacity to keep good records let alone conduct evaluation; secondly, the additionality problem makes it difficult to assess the impact of Commission funding in states which are net contributors to the Union budget such as the U.K., France and Germany; and finally, national and EU audits may be geared towards different objectives and clients. In the case of the U.K., ministers and officials have stated the government's commitment to carry out evaluations while making no reference to specific Commission requirements. In 1991, the Treasury confirmed that 'the spending departments will monitor and evaluate the CSFs and the manner in which they are set up to ensure that they provide VFM in the regions concerned' (House of Lords, 1991 105). Indeed, the Commission itself has acknowledged the evaluation work carried out in the U.K. in various Objective 2 regions (European Commission, 1993 93).

The DTI and the territorial ministries have claimed that all programmes are evaluated ex ante for VFM, arguing that there is probably too much monitoring rather than too little (House of Lords, 1991.). Nevertheless, the Department of Transport has noted that as far as the ERDF was concerned 'we are still in the infancy of effective monitoring' (House of Lords, 1991 141), reflecting observations made by both the Department of the Environment and the Department of Employment in 1988. The problem seems to be at the ex post stage where there are difficulties in measuring long term effects, and disentangling the results of Community funded from nationally funded actions and external factors. In the view of the Northern Ireland office, complex ex post VFM judgments which included cost-benefit analysis 'might be difficult to quantify' (ibid. 60).

It is clear that local VFM monitoring is going on, at least in some places. In one of the biggest CSFs in the EU, Strathclyde European Partnership (SEP) in Scotland, SEP officials have a programme of on the spot visits to the 500- 600 live projects to monitor the achievement of objectives and targets. In addition, project managers have to report on performance, outputs and impact in order to receive funding from the managing agent (Scottish Office Industry Department (SOID)), and send quarterly reports to SEP. SEP in turn produces an annual report for the Commission (via SOID,) and has commissioned interim and final evaluations of its activities. Whatever the requirements of the Commission, a management culture has been gradually developed locally in which VFM evaluation is routine.

However, local managers must tread carefully. In his evidence to the House of Lords, the then Secretary of State for Trade and Industry (Peter Lilley, MP), stated that it 'is one of the ambitions of the Community to involve (local authorities) more extensively and national governments less extensively' in the policy and management of the Structural Funds (ibid. 155).

## Conclusions

In language somewhat redolent of a by-gone era, he felt that the apparent promotion of regional authorities by the Commission was an unwarranted interference in the internal arrangements of each member state. Indeed, the UK government has been extremely wary of Commission initiative programmes such as RECHAR and RENAVAL precisely for the reason that they give the Commission more direct control over programme content at the local level. Similarly, documented cases of direct local authority approaches to Brussels to be included in a designated programme are not looked upon kindly. In the case of West Cumbria's campaign for Objective 2 status, the local (Conservative) MEP noted that 'the Commission can confirm that a programme application under Objective 2 has not been submitted despite repeated requests from the Commission to the UK government to do so' (ibid. 176).

## Conclusions.

In terms of financial management generally, and the Structural Funds in particular, the relationship between managers, auditors and clients is fragmented and diverse and does not encourage an effective use of audit resources. While relations between different audit agencies is less than constructive in some cases, the major problem is the crosscutting, contradictory and incomplete lines of accountability. There is no evidence that the subsidiarity as an efficiency criterion has been applied in any systematic way in these areas.

All the agencies of control and accountability suffer from limitations and weaknesses, and there seems to be a crucial lack of confidence (perhaps justified in some cases), between levels and institutions. The ECA is treated with suspicion by the national authorities, the Commission and even the BCC on occasions. For the reasons already identified, it suffers from a certain degree of internal fragmentation. Commission practices vary from DG to DG, although it is clear that DGs 19 and 20 are trying to encourage a more uniform approach. While the degree to which this may be possible is restricted by the very different management systems required by individual policy areas, the current uneven picture is symptomatic of a lack of co-ordination or common approach to legislation. Furthermore, resources and expertise for VFM audit are limited in an organisational culture which has been dominated until recently by spending and policy design goals. Attempts by the Commission at direct programme management are unlikely to succeed in this context, and in any case are likely to encounter varying degrees of member state hostility accompanied by the ritual invocation of the subsidiarity principle. Having said that, there is an unmistakable change in attitudes and practices taking place as a result of the change factors we have identified. The ever greater attention to VFM and financial control issues in new regulation is symptomatic of this. This not only affects the Structural Funds, but agriculture too (the biggest item in the budget).

The role of the member state agencies remains problematic. As the Commission cannot itself hope to audit more than a small fraction of the total spend, it has to rely on member states to act as gatekeepers, evaluating their arrangements for VFM and other evaluation. In this context, cofinancing programmes are entirely appropriate as they give member states a vested interest in achieving VFM. If the situation within the Commission is diverse however, it is much more so in the member states. It is evident that some member state agencies are simply unable to carry out VFM audits, and that neither the Commission nor the ECA either can fill the gap or check up on them all.

Of course, the problem is not simply an organisational one. As we have argued, one of the real difficulties has been the lack of clearly defined and measurable objectives in many programmes (Levy, 1990). The Commission has certainly been aware of this over recent years, and insofar as political considerations allow, newer legislation reflects this awareness. Indeed, the 1988 Structural Fund regulations can be considered a landmark in this process.

Can subsidiarity as an efficiency criterion provide an answer to these problems? In theory, it should be able to by identifying where accountability functions are optimally located. It is at this point that real capability has to be matched against ideal accountability: if the former is seriously deficient, then there is little point in (yet) allocating accountability responsibilities to that organisational level.

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