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# **DRAFT REPORT**

on the nomination of Rimantas Šadžius as a Member of the Court of Auditors  
(C8-0126/2016 – 2015/0805(NLE))

Committee on Budgetary Control

Rapporteur: Bart Staes

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## PROPOSAL FOR A EUROPEAN PARLIAMENT DECISION

**on the nomination of Rimantas Šadžius as a Member of the Court of Auditors  
(C8-0126/2016 – 2015/0805(NLE))**

### **(Consultation)**

*The European Parliament,*

- having regard to Article 286(2) of the Treaty on the Functioning of the European Union, pursuant to which the Council consulted Parliament (C8-0126/2016),
  - having regard to Rule 121 of its Rules of Procedure,
  - having regard to the report of the Committee on Budgetary Control (A8-0000/2016),
- A. whereas Parliament's Committee on Budgetary Control proceeded to evaluate the credentials of the nominee, in particular in view of the requirements laid down in Article 286(1) of the Treaty on the Functioning of the European Union;
- B. whereas at its meeting of 23 May 2016 the Committee on Budgetary Control heard the Council's nominee for membership of the Court of Auditors;
1. Delivers a favourable/negative opinion on the Council's nomination of Rimantas Šadžius as a Member of the Court of Auditors;
  2. Instructs its President to forward this decision to the Council and, for information, the Court of Auditors, the other institutions of the European Union and the audit institutions of the Member States.



## **ANNEX 2: ANSWERS BY RIMANTAS ŠADŽIUS TO THE QUESTIONNAIRE**

### **Professional experience**

#### **1. Please list your professional experience in public finance be it in budgetary planning, budget implementation or management or budget control or auditing.**

Starting from 2003, my professional activities all the time had close connection to public finance.

As a Vice-Minister of Social security and Labour, I had in my responsibilities the issues of social insurance and social assistance budgets. One of significant undertakings where I made a major personal contribution was construction of a specific state aid scheme for supporting employment of vulnerable groups of workforce via so-called social enterprises, or a new kind of private businesses specifically designed to employ disabled people, long-term unemployed, former prisoners etc. Special tasks were put before me also with ongoing accession of Lithuania to the European Union in 2004: this included implementation of projects financed from EU pre-accession funds and preparation to start using the EU structural assistance in the programming period of 2004–2006.

At the Ministry of Health of the Republic of Lithuania one of the main areas of my professional interest and responsibilities was ensuring health care financing via the State Health Insurance Fund. This included work with the legislation providing resources, i.e. health insurance contributions paid by natural and legal persons, but also budgetary planning for financing different health care providers, also tackling complicated relations between the public and private sector actors in the area. This also allowed me to study in some detail health care financing systems of a number of other countries.

The Ministry of Health was a responsible authority for implementation of EU-funded projects in the health area. At that time in the Ministry I chaired the project selection committee, where important aspects of resource planning, results-orientation, responsible budget management were discussed. During my term at MoH we also started to compose the Strategy for the Use of EU Structural Funds for the next programming period of 2007–2013, which meant for Lithuania a completely new stage and new challenges in budget planning, which included results indicators and cross area assessments of efficiency of EU investments..

I continued this work already at the Ministry of Finance, at the beginning as a Vice-Minister and later as a Minister. There were three main areas that required large effort during preparation to the new EU programming period: first, compiling the strategic documents (Strategy and Operational Programmes) that would guide institutions in the budgetary planning of EU funds, second, creation of a new institutional framework for managing the EU funds in accordance with EU legislation, and third, integration of EU structural assistance in the conventional context of the national budget. Here I would particularly mention the creation of the improved auditing system for EU structural funds, involving the Supreme Audit Institution of Lithuania – National Audit Office.

Successful preparation and implementation of the 2007–2013 programming period set a perfect ground for the next period of 2014–2020.

Another aspect of my personal experience in public finance was establishment of the fiscal discipline framework in Lithuania. Worth mentioning is the preparation and adoption of the Law on Fiscal Discipline in 2007 and the Constitutional Law on Implementation of the Fiscal Compact in 2014 (already in my second term as the Minister of Finance), both with my personal involvement. Wise national budget planning, including creation of respective incentives for institutions and municipalities, was of huge importance for Lithuania's accession to the Eurozone in 2015.

As the Minister, I always paid huge attention to ensuring the efficiency of public spending in particular areas, creation of results-oriented system of planning and evaluation of budget programmes and strengthening both internal and external control of expenditure. Under my leadership, significant positive shifts took place also in the management of state assets and operation of state-owned enterprises.

## **2. What have been your most significant achievements in your professional career?**

As the Minister of Finance, I contributed to a responsible fiscal policy for Lithuania. Under my leadership the Ministry of Finance prepared novel legal basis (most importantly, the Law of the Republic of Lithuania on Fiscal Discipline and the Constitutional Law on Implementation of the Fiscal Compact) with the aim of increasing confidence in the long-term sustainability of public finances and establishing the long term rules of fiscal discipline, ensuring sustainable economic growth. The major innovation in the institutional framework was that the functions of the independent budget policy monitoring authority (so-called Fiscal Council) were assigned to the National Audit Office of the Republic of Lithuania. This authority is drawing up an independent opinion on the economic development scenario developed by the Ministry of Finance of the Republic of Lithuania and performs scrutiny of draft budgetary plans.

Another important area where I put a lot of emphasis is tax collection. Taking into account the world-wide practice, as well as recommendations of international organizations, a number of reforms and improvements in tax administration were implemented. The so-called Smart Tax Administration System started in Lithuania from the automated controls of VAT declarations, prospectively allowing risk assessment, evaluation of business behaviour in real time, performing cross-checks, much more efficient identification of tax fraud and tax evasion cases. This, along with some other administrative measures, led to significant positive structural shift of the amount of collected taxes as part of GDP, with the public sector in 2015 eventually almost at balance.

I also contributed to the accounting and financial statements reform in the public sector of Lithuania including budgetary institutions, public and municipal enterprises, institutions and organisations. The purpose of the reform is to introduce accrual accounting in the public sector in compliance with the legislation of the Republic of Lithuania and pursuant to the International Accounting Standards and International Public Sector Accounting Standards. The reform is targeted to building more reliable and transparent basis for budget planning and implementation.

Making EU funds in Lithuania more efficient was one of my most important personal goals. The guiding idea "Investment rather than better spending" was clearly voiced in the course of Lithuanian Presidency of the Council of the EU and has become widely popular. During the programming period of 2007–2013 Lithuania was one of the first countries in the EU which

took the challenge to implement financial instruments in order to improve access to finance for SMEs and finance energy efficiency projects. The financial instruments we established (three holding funds and one guarantee financial instrument for SMEs' access to finance and one holding fund for energy efficiency projects) have already proved their advantages – in some instruments the funds have been repaid and invested repeatedly. In 2014–2020 we expect to get the best results from EU funds by taking into account our experience from the past, but also double the financing for the financial instruments as well as expanding their scope in new areas (e.g. transport, street lighting, water infrastructure and so on). A state-owned national investment platform VIPA started operations in 2013 under my supervision for efficient management of capital resources of the funds.

Under my leadership, significant positive shifts took place in the management of state-owned enterprises. The Ministry of Finance is a shareholder of the biggest state-owned enterprises in Lithuania – Lietuvos Energija Group, which is one of the largest energy producers in the Baltic States. The corporate governance structure and model of the Group was implemented following the governance guidelines provided by the Ministry of Finance. For that, we applied the most advanced international and national practice, OECD recommendations, Corporate Governance Code of NASDAQ OMX Vilnius Stock Exchange. Our experience is now being extended to transport and other sectors.

I was honoured to be the President of the Economic and Financial Affairs Council of the European Union (ECOFIN) from July to December 2013. Key outputs of the Lithuanian Presidency included a timely deal on the EU budget for 2014, on Cohesion Policy 2014–2020, on financial services and taxation files, and substantial progress in building the Banking Union. The agreement on the Single Resolution Mechanism was one of the most remarkable achievements in building strong and sound Banking Union. I would also mention our achievements in the audit field, where we have reached an agreement on the reform of the European audit market. The main features of the agreement included more stringent rules for the auditors and audit firms that are aimed in particular at strengthening the independence of auditors of public interest entities (PIEs) as well as at assuring greater diversity within the current highly-concentrated audit market.

Not least, I am very proud that during my term and under my leadership Lithuania successfully joined the euro zone on 1 January 2015. From this day Lithuania became the 19th fully-fledged member of the euro zone, using the euro as the single currency of the European Union. Euro introduction for Lithuania means deeper integration into the European Union, which gives us more safety and security both in economic and political sense.

### **3. What has been your professional experience of international multicultural and multilingual organisations or institutions based outside your home country?**

As a member of the ECOFIN Council, and especially during Lithuanian Presidency of the Council of EU in the second half of 2013 in my capacity of the President of this Council formation, I worked intensely with the Member States, European Parliament, European Commission and other stakeholders in safeguarding the interests of Europe and its citizens in such important areas as economy and finance, specifically including EU cohesion policy and EU budget. The Presidency for me was a challenge and opportunity at the same time; from this experience I conclude that we can achieve great results expected by European citizens, only if we, Member States and European institutions, work together.

Since 2012 I have also been a Governor of many international financial institutions: the World Bank Group, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Nordic Investment Bank (NIB), and an Alternate Governor of the International Monetary Fund (IMF).

Besides that, I am involved in the Eurogroup activities and sit as a Governor of the European Stability Mechanism (ESM).

All this provided me with extensive experience of international and intercultural cooperation.

**4. Have you been granted discharge for the management duties you carried out previously, if such a procedure applies?**

The kind of discharge procedure foreseen by the Lithuanian legislation somewhat differs from that applied in the European Parliament. The annual budget implementation account presented by the Minister of Finance on behalf of the Government is audited by the Supreme Audit Institution (SAI) and then scrutinized by the Seimas (Parliament) of the Republic of Lithuania. The Parliament approved these accounts by adopting the corresponding Solutions in all cases I presented and defended these accounts before the Parliament in my capacity of the Minister.

**5. Which of your previous professional positions were a result of a political nomination?**

I was appointed to the positions of a Vice-Minister at the Ministries of Social Security and Labour, Health, and Finance formally as a result of political nomination by the respective Ministers. I was nominated to the position of the Minister of Finance in 2007 by the Prime Minister after resignation of the previous minister, and appointed by the President of the Republic. However, I believe the main arguments for choosing my candidacy in all these cases were my qualifications and professional skills rather than political affiliation.

I was appointed for my second term as the Minister of Finance in December 2012. The process of formation of the Cabinet of Ministers after the 2012 general election was strongly influenced by the upcoming EU Presidency and the new Government's goal of properly preparing for the adoption of the single EU currency. My reputation as being impartial, effective and knowledgeable was apparently a key precondition for approval of a prospective minister.

Notably, I have never been a member of the Parliament and never combined my positions in the Government with any kind of Parliamentary activities.

**6. What are the three most important decisions to which you have been party in your professional life?**

The three areas where my personal input and commitment proved to be decisive, could be named as follows:

**Introduction of the euro in Lithuania.** This required not only huge practical work of preparation to the changeover, where I lead creation of the process management system and personally chaired the high-level operational group guiding the process. This also meant creating right fiscal and legal conditions. Introduction and enforcement of the fiscal discipline

framework, starting with the Fiscal Discipline Law in 2007, was always among my highest priorities. Lithuania managed to ensure decreasing trend of fiscal deficit and stabilization of public debt, at the same time increasing efficiency of spending and revenues from state-owned enterprises.

**Creation of the Banking Union.** As the President of the ECOFIN Council I had to play a central role in reaching a long-awaited deal on the Single Resolution Mechanism, a key pillar of the Banking Union. This agreement was indeed the highlight of the Lithuanian Presidency in 2013, which has consistently and with all its efforts followed its determination to build a credible Europe. During my presidency we also reached agreement with the European Parliament on two separate components of the Banking Union: Bank Recovery and Resolution Directive, which establishes a framework for the recovery and resolution of banks and investment companies while safeguarding the taxpayers' money, and Deposit Guarantee Schemes Directive, aimed at ensuring sufficient financial means in the Schemes funds and fast pay-outs to depositors in failed financial institutions.

**Making EU funds management and auditing in Lithuania more efficient.** The Managing Authority for European Union funds in Lithuania is the Ministry of Finance, which is in charge of effective and transparent implementation of EU funds according to principles of sound financial management. As the Minister I took an active role in creation of a more efficient institutional framework for managing the 2007–2013 EU funds in accordance with EU requirements and best practices. For example: in order to improve the scrutiny of audit activities and ensure compliance with principles and best practices of functional separation between the auditor and the auditee (managing authority, intermediate bodies, certifying authority), we decided to shift the responsibility for the implementation of EU funds audit procedures from the respective department at the Ministry of Finance to the National Audit Office of the Republic of Lithuania. At the time, it already had extensive experience in audit issues of EU funds and the annual evaluation of functioning of the management and control system. This specific transformation and a number of other improvements in the institutional framework for managing the 2007–2013 EU funds greatly enhanced the auditing of EU funds and the sound financial management culture in Lithuania: a clear evidence is one of the lowest error rates among the EU Member States. The system also continues to serve in the 2014–2020 programming period.

Another our innovation was to directly integrate several other institutions in the management system of the 2014–2020 EU funds in order to strengthen specific control and reduce inappropriate use of the EU funds: namely, the State Public Procurement Office, the Financial Crime Investigation Service and the Competition Council. This institutional scheme proves to be efficient indeed.

## **Independence**

### **7. The Treaty stipulates that the Members of the Court of Auditors must be 'completely independent' in the performance of their duties. How would you act on this obligation in the discharge of your prospective duties?**

The principle of independence is one of the fundamental principles for the auditors and auditing institutions. Supreme Audit Institutions can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence. Auditors should remain independent so that their reports would be impartial and be seen as such by the intended users. In fulfilling the principle of independence as Member of

the Court of Auditors I would act in accordance with the requirements laid out in the Treaty, Ethical guidelines for the European Court of Auditors, the Code of Conduct for the Members of the Court, Rules of Procedure of the Court of Auditors and the Rules Implementing the Rules of Procedure.

In the performance of my duties as a Member of the Court of Auditors I would refrain from any action that would lead to loss of independence, would avoid any situation that might lead to a conflict of interest and I would take any appropriate action to eliminate threats to independence. In exercising my duties I would act objectively and constructively, and would not take instructions from governments or other bodies and refrain from any other professional activities, and in particular I would hold no political offices.

**8. Do you or your close relatives (parents, brothers and sisters, legal partner and children) have any business or financial holdings or any other commitments, which might conflict with your prospective duties?**

No. I am not aware of any such fact that might conflict with my prospective duties.

**9. Are you prepared to disclose all your financial interests and other commitments to the President of the Court and to make them public?**

Yes, I am ready to fulfil any disclosure obligations applicable to a Member of the Court. I will disclose all my financial interests and other commitments to the President of the Court of Auditors and if necessary publish them. Because of my previous and present positions in the civil service of my country, according to the relevant Laws of the Republic of Lithuania which regulate disclosure of financial interests and other commitments of specified civil servants, I have been regularly disclosing and publishing my and my family's financial interests and other commitments since 2003.

**10. Are you involved in any current legal proceedings? If so, please provide us with details.**

No, I am not involved in any current legal proceedings.

**11. Do you have any active or executive role in politics, if so at what level? Have you held any political position during the last 18 months? If so, please provide us with details.**

I belong to the Lithuanian Social Democratic Party since 1990, after restoration of Lithuania's independence. As the Minister of Finance in the coalition Government of Lithuania, I am also a member of the Council of the Party. However, I have never had any executive position at any level, neither in this Party nor other political organizations. I was never elected to the Parliament and never belonged to Parliamentary political groups nor participated in their activities. In all appointed positions I served on the basis of professionalism.

**12. Will you step down from any elected office or give up any active function with responsibilities in a political party if you are appointed as a Member of the Court?**

Yes, I will step down from any elected office and give up any active function in case of appointment to the Court. I will not take any such office or function during my term as a Member of the Court.

### **13. How would you deal with a major irregularity or even fraud and/or corruption case involving persons in your Member State of origin?**

The EU budget is taxpayers' money that must be used only for implementing the policies which the EU legislator has approved. To my strong belief, whatever public undertaking, if marred by corruption, fraud or irregularity, it would never reach its full objectives. If I encountered corruption, fraud or other serious irregularities with a potentially negative impact for EU public funds, be it EU revenue, expenditure or assets held by the EU institutions, I would deal with them in a very strict way and ensure reporting the matter to OLAF or other competent authorities, but of course in full accordance with the rules and procedures of the Court. For sure, I would do so irrespective of the person or Member State concerned, be it Lithuania or any other. Equal treatment also in this respect is and will remain one of my strongest personal imperatives.

#### **Performance of duties**

### **14. What should be the main features of a sound financial management culture in any public service? How could the ECA help to enforce it?**

Sound financial management (SFM) is a fundamental part of the good governance concept. Accountability, transparency, rule of law are equally essential for the good governance in the public service. The SFM culture in a public organisation should lay the ground for the highest performance behaviour and continuous improvement. It is to contain four necessary elements: the leadership (values, clear vision, mission and objectives), decision-making and structure (clear roles and responsibilities, and structure that supports objectives), people (effective human resources management including training and knowledge management), and work processes and systems (effective and efficient work processes, and risk management system).

Democratic oversight of the budget implementation should be a key accountability element to inform the taxpayers on how their money is being spent, whether in accordance with the relevant rules and regulations, but even more importantly, whether their money spent achieved the intended results.

All this holds for the EU-wide context as well. In EU the SFM concept is introduced in the primary legislation – the Treaty on the Functioning of the EU, whereof Article 317 states that “The Commission shall implement the budget in cooperation with the Member States ... having regard to the principles of sound financial management” and that “Member States shall cooperate with the Commission to ensure that the appropriations are used in accordance with the principles of sound financial management”.

Then the Financial Regulation applicable to the general budget of the EU describes further the SFM principles via so-called 3 Es: economy, efficiency and effectiveness. Here the principle of economy means making the necessary resources available for the institution in due time, in appropriate quantity and quality and at the best price; the principle of efficiency concerns the best relationship between resources employed and results achieved; and effectiveness means attaining specified objectives and achieving intended results.

In addition to the above-mentioned statutory SFM principles, the ongoing global changes brought about other features of good governance which any modern public service should adhere to; for instance, the so-called three additional Es (environment, equality and ethics).

In my opinion, despite quite limited scale of the agreed EU budget, building a strong SFM culture in EU finances can be crucial to the success of the very European idea. But for that, first, expenditure from the EU budget should offer clear and visible benefits for the EU and for its citizens which could not be achieved by spending only national money; in full accordance with the subsidiarity principle. This is precisely the concept of the European value for money. Unfortunately, too often the EU funds would simply increase total funds available in the country, without adding a particular European value. Or EU funds might be used for activities that would have been carried out by the Member States and the beneficiaries anyway (deadweight). Second, still in many cases too large emphasis is put on just spending the EU funds (the input-oriented approach) focusing mainly on compliance of expenditure, regardless of the relevance of the results achieved.

In the programming period of 2014–2020 things have already changed dramatically, and this became a challenge both for Member States and European institutions, including the European Court of Auditors. Specific SFM features, such as macro-economic conditionality, performance reserves, more possibilities for simplification, synergies between funds and more extensive use of financial instruments, have been introduced in the current 2014–2020 Multiannual Financial Framework (with important input for the process from Lithuanian Presidency). However, even more is needed. Creation of performance-based EU budgeting shall be a priority for the Commission, and I believe that the Court can also be involved in this process as a partner, of course, without compromising its independence.

In Lithuania the EU funds amount to almost 15 percent of total general government spending and therefore, are decisive in achieving policy objectives. In my capacity of the Minister of Finance I took part in setting up the result-oriented system of management and control of EU funds. Lithuania is among the top, if not the top Member State as regards the absorption capacity of EU funds. My priorities in the SFM area for the programming period of 2014–2020 are fraud prevention, but also proportionate controls, simplification and reduction of administrative burden, and last but not least – the main focus on outcomes and results having long-term positive impact on economic growth, creation of jobs and poverty reduction. Positive results are there: according to the Audit Authority of the National Audit Office the residual error rates in the cohesion policy in Lithuania (e.g. 0,42 percent in 2014) are systemically far below even the materiality threshold of 2 percent, which is an outstanding achievement compared to the accumulated figure at the EU-wide level, where, say, the Court’s estimated level of error for cohesion policy in 2014 was 5,7 percent. Moreover, *ex post* evaluations show decisive positive impact of EU funds upon Lithuania’s economy and social life.

Evidently, the European Court of Auditors through its audit and other work has a unique role to play in strengthening the democratic legitimacy and sustainability of the entire EU. I fully share Court’s call in the last year’s Annual Report for a “wholly new approach” by investing EU (and national) funds better to take into account global challenges that Europe now faces. On the other hand, timely and relevant Court’s audit results should be provided to the EU decision-makers, and all parties must then ensure better implementation of audit recommendations.

And finally, I welcome the recent reform of the Court put forward by the Court’s Strategy for 2013–2017 which has to transform it into a more modern organisation by further enhancing good governance within the Court itself. I hope this will allow the Court to more flexibly use

its resources and streamline procedures to produce more relevant and timely reports. Change should be part of continuous development, with participation of each Member of the Court striving to proactively promote the sound financial management culture both within the organisation and the entire EU. I am ready to make my personal input.

**15. Under the Treaty, the Court is required to assist Parliament in exercising its powers of control over the implementation of the budget. How would you further improve the cooperation between the Court and the European Parliament (in particular, its Committee on Budgetary Control) to enhance both the public oversight of the general spending and its value for money?**

A fully collaborative system of scrutiny is crucial between the parliamentary oversight and public audit. I strongly believe that the cooperation of the Parliament's Committee on Budgetary Control (CONT) and the Court is an essential element in exercising the public oversight of EU taxpayers' money. The long history of mutual cooperation between both institutions brought up good practise: regular meetings to present the audit results, consultations in the process of selection of high priority audit themes, preparation of an annual work programme. However, as the global world changes constantly, better ways of cooperation and synergies should be looked for, beneficial for both parties in exercising their remits within the accountability framework.

The Parliament executes its principal function of parliamentary control over the executive branch, the Commission, by exercising the discharge procedure, in which the Parliament, after a recommendation from the Council, decides whether the Commission has satisfactorily carried out its responsibilities for implementing the budget. The Court's annual report, together with special reports, provides a crucial basis for this procedure.

Proper arrangements for the production of the Annual Report play a key role to present it to the Parliament and the CONT on time and of appropriate quality. Advancing the production of the annual reports would allow more time for the CONT to scrutinise it. For this, further assistance and more systemic interaction with assigned Parliament rapporteurs in drafting the discharge reports could be helpful, and the same applies to the special reports.

The value of the performance audit work, to a large extent, depends on the relevance and timeliness of the special reports produced. Both arms of the budgetary authority must get the audit results at the right time of the multiannual budgetary cycle in order to contribute to the legislative process effectively, otherwise the Court's reports do not produce the desired impact and the scarce resources are wasted. In this respect, the new provision to adopt the special reports within an appropriate period of time not exceeding 13 months is a welcome development and serves well for the timeliness of the audit results but also for the greater efficiency within the Court.

An important cross-cutting product of the Court are landscape reviews, produced on the basis of the Court's research and accumulated audit experience. I consider such reviews as an additional source of evidence serving Parliament's legislative and oversight process. The Court by involving, where relevant, other research capacities, like the Parliament's research service, could further build a solid independent evaluation instrument.

In addition, along and with the help of CONT, more intense cooperation with the specialised committees of the Parliament could be important and useful. Relevant committees could serve

as an additional platform in a decision-making process by considering the Court's reports as well as discussing other points of common interest with the Court.

Finally, together with CONT the Court should keep stronger links with the Council and national parliaments, which are also political authorities overseeing the EU funds. One of my priorities as a member of the Court would be active involvement in working relations with the national parliaments of the Member States, and also with the Council. I believe, this could contribute to better accountability, greater awareness and increased credibility of the EU.

#### **16. What added value do you think performance auditing brings and how should the findings be incorporated in management procedures?**

The Court has a clear mandate to carry out performance audits. The Article 287 (2) of the Treaty stipulates that "The Court of Auditors shall examine ... whether the financial management has been sound". International Standard for Supreme Audit Institutions (ISSAI) guide the Supreme Audit Institutions (SAIs) quite extensively on the issue of performance auditing, and the Court's Performance Audit Manual is rightly built on those standards.

A performance audit is an independent, objective and reliable examination of whether undertakings, systems, operations, programmes, activities or organisations are operating in accordance with the principles of economy, efficiency and effectiveness, and whether there is room for improvement.

As the definition of performance audit above suggests performance audit enriches public accountability and enables the SAI to make valuable contribution to improving the performance of the public service. Performance auditing has important functions to fulfil, both in relation to citizens, legislative and executive bodies that are audited.

The democratic principle is based on the citizen's right to hold their representatives accountable for their decisions and actions. In order to fulfil this principle, EU citizens expect to be informed on how public resources are spent and how public services perform. By providing objective and reliable information on these issues, performance auditing contributes to transparency and accountability of the EU as a whole.

Performance auditing shall also play an important role in keeping policy-makers well informed about the executive's actions, and the results and outcomes of decisions. Both legislative arms of the EU, the European Parliament and the Council of the EU need reliable and independent information on the results and effects of programmes and decisions. Performance auditing represents a unique source of information being independent and objective, and not attributable to any political authority, in this way indirectly contributing to political decision making process by providing serious evidence.

Performance auditing encourages development and change in the public sector, by providing new information and drawing attention to various challenges. It also may address problems that sometimes go beyond the auditee mandate by involving issues from purely political agenda. Thus, it contributes to improvement and reform in the public sector. In this way performance auditing is able to add value far beyond that of just a control function.

The added value of Court's performance audits is in ability to see the big picture and collect as well as spread best practices and by doing so it contributes to public oversight of the

implementation of the EU budget and informed decision-making on governance arrangements, policy and programme design, and the allocation of the EU budget. Findings, conclusions and recommendations are the most important elements of a performance audit report. And audit findings and conclusions must lead to consequences. Thus recommendations in a report must be practicable and add value in order to contribute to improving the financial management in the audited entities procedures or the public sector as whole: result in financial savings, introduce better working methods, avoid of waste, achieve cost-efficient objectives and produce long-term positive impacts. However, a strong accountability framework should be supplemented with audit follow up and proper monitoring and implementation of audit recommendations.

Assessing and measuring the impact of the Court's performance audit reports is a necessary element in the cycle of accountability. The recommendations made in the Court's special reports should be followed up in order to establish and assess the measures taken and the progress made. I believe that the Court shall increase the effectiveness of its audit reports by further strengthening the monitoring of the implementation of Court's recommendations. In particular, the Court could introduce a procedure where the auditee, the Commission, draws the detailed implementation plans of the Court's recommendations and the Court monitors and follows up (by using its own sophisticated database) how the Commission and the Member States keep their commitment to implement such plans.

#### **17. How could cooperation between the Court of Auditors, the national audit institutions and the European Parliament (Committee on Budgetary Control) on auditing of the EU budget be improved?**

The Court cooperates with other Supreme Audit Institutions (SAIs) mainly through the International Organisation of Supreme Audit Institutions (INTOSAI) and its European regional group (EUROSAI).

At the level of the EU the Treaty introduces the scene for the cooperation with the national audit bodies. Article 287 (3) of the Treaty requires that "In the Member States the audit shall be carried out in liaison with national audit bodies ... . The Court of Auditors and the national audit bodies of the Member States shall cooperate in a spirit of trust while maintaining their independence."

The Member States share responsibility for the implementation of around 80 percent of the EU budget. Naturally, SAIs should be involved in auditing EU funds in the country thus forming an audit chain up to the CONT in the Parliament. In ideal situation and in line with a single audit concept the SAIs could audit the respective national accounts and other reports of the use of EU funds in the country. The Court could then rely on the work done by the SAIs and use a part of the assurance to form the opinion on the consolidated accounts of the EU. However, in practice the SAIs are independent national bodies accountable to the national parliaments and performing under the national frameworks that vary significantly throughout the EU. Thus, a unified model on how the SAIs audit EU funds does not exist and probably is not feasible unless political agreements are reached and legal basis created. Some SAIs voluntarily audit the national declarations on the use of the EU funds in their respective countries. Some act as part of the internal control framework of the EU funds and report to the Commission (e.g., National Audit Office of Lithuania in the role of the Audit Authority for the cohesion policy). Others carry out national compliance or performance audits with a

specific focus on the EU funds.

Recent developments within the EU and Member States in general and especially resulting from the financial crisis, and the current level of economic, budgetary and monetary integration, makes it clear that greater cooperation between the Court and Member States' SAIs is necessary, on a bilateral or wider basis depending on the issues under consideration. The current Contact Committee framework, where the Court plays a pivotal role, opens endless variety of ways and forms of cooperation. I think that besides different activities under the working groups and the task forces, the Contact Committee could be more proactive in initialising the cooperative audits on the themes of common interest: e.g. implementation of the Europe 2020 Strategy, intercommunity VAT fraud, infrastructure of the EU road networks, fighting corruption. The CONT in this respect could be final user of such audit results with the possibility to debate and consider the EU wide issues in a more comprehensive manner. As a good example of such cooperation I would point out the joint audit work done on Chapter 3 of 2014 Annual Report in assessing on how the Europe 2020 Strategy feeds through into partnership agreements and funding programmes agreed between the Commission and Member States.

Reducing costly audit overlaps for EU funds is another good reason to cooperate. The Court and EU SAIs should explore any opportunity to avoid costly audit overlaps, primarily by ensuring that auditors at each level can rely appropriately on the work of other auditors. The Court and the SAIs in Member States would need to enhance their cooperation to achieve this goal.

**18. How would you further develop the reporting of the ECA to give the European Parliament all the necessary information on the accuracy of the data provided by the Member States to the European Commission?**

The Court within its mandate as laid down in the Treaty and the Financial Regulation produces three main outputs: annual reports, special reports and opinions, and the new fourth being landscape reviews. These Court's products are an important element in the EU accountability chain providing the Parliament and other stakeholders with the instrumental information to assist in their oversight of the public spending.

Annual reports mainly contain the results of financial and compliance audit work on the EU budget and European Development Funds. Specific annual reports present financial and compliance audit work on the agencies, decentralised bodies and other institutions of the EU.

I welcome that the Court has continuously been developing the annual report to include more information in order to better assist the CONT in its discharge process: more assessments of quality of spending and performance, state of play of supervisory and control systems in separate Member States, budgetary management at the Commission. This additional information provided along with the error rates for the budget revenue and expenditure including error rates of the main EU policy areas supplements the statement of assurance provided in the report with more qualitative rather than just quantitative information.

Where the Commission implements the budget under shared management, it delegates implementation tasks to Member States. Member States shall take all the necessary measures, including legislative, regulatory and administrative measures, to protect the Union's financial interests, ensuring that actions financed from the budget are implemented correctly and

effectively and in accordance with the rules. Member States share responsibility for the implementation of around 80 percent of EU budget.

The fact that for 21 years in a row, payments from the EU budget have been materially affected by error means that the supervisory and control systems are insufficiently effective, as neither the Commission nor Member States were able to keep to the acceptable level of errors of below 2 percent.

To be accountable for the financial management of EU funds, the Member States are required to provide control reports, annual accounts, management declarations, annual summaries on audits and of controls they have performed on the legality and regularity of EU funds received by the country, and audit opinions. However, the Commission itself admits in its synthesis report that the reliability of Member States control reports remains a challenge. Thus, the Commission has to improve a sanction system if Member States transmit incorrect information in the control reports but also in other reports from the Member State. Pursuant to the Financial Regulation the Commission has to analyse the areas of persistently high levels of error, and consequently to identify the weaknesses in the control systems, analyse the costs and benefits of possible corrective measures and take or propose appropriate action in terms of simplification, improvement of control systems and redesign of programmes or delivery systems when appropriate data is available.

In this regard the Court's focus shall be the assessment of the reliability of information and assurance provided by the Commission on the basis of the internal control framework, the effectiveness of which is mainly based on the quality of Member States systems. The Court has to intensify the assessment of the Commission's work on the accuracy of the data provided by the Member States and provide the CONT with a more meaningful information on the root causes of the errors and specific actions on how to remedy the deficiencies found (in the form of audit recommendations and implementation plans drawn by the Commission providing actions related to increasing the preventive and corrective capacity of supervisory and control systems). In addition, the Court shall continue its work to assess the Eurostat's performance on how data are collected in the Member States and how high quality reliable statistics are ensured to assist informed decision-making on EU policies.

## **Other questions**

### **19. Will you withdraw your candidacy if Parliament's opinion on your appointment as Member of the Court is unfavourable?**

My nomination to become a Member of the European Court of Auditors was in accordance with the democratic and transparent procedure which included: (unanimous) nomination by the coalition Government of the Republic of Lithuania, consent of the President of the Republic, and, finally, approval by the majority plenary vote in the Seimas (Parliament) of the Republic of Lithuania. I believe, this procedure also ensured in particular my independence of any political influence from my country.

I believe that constructive and frank cooperation with the European Parliament is of the utmost importance to a Member of the Court of Auditors. Therefore, if the opinion of the Parliament on a nominee is negative, this could clearly impede the smooth interaction of such a Member, if nevertheless appointed, with the Parliament and its committees.

But more importantly, I believe that the European Court of Auditors as an institution also has to have clear democratic legitimacy, which can be strongly enhanced if the European Parliament, directly elected by European citizens, provided favourable opinions on Court's members appointment. Therefore, if the European Parliament has or raises major objections to my nomination to the Court of Auditors, I will submit withdrawal of my candidacy to my Government.

I believe that I deserve European Parliament's trust and will faithfully perform my mission in the European Court of Auditors. So, I hope that the Parliament will deliver favourable opinion on my candidacy.