

# PUBLIC HEARING

COMMITTEE ON BUDGETARY CONTROL

25.09.2013

JÓZSEF ANTALL BUILDING - BRUSSELS

15.00-18.30 ROOM: JAN 6Q2

## EUROPEAN COURT OF AUDITORS

From legality and regularity  
audits to evaluation  
of efficiency and effectiveness  
of EU projects  
and programmes

Chairman:

**Michael Theurer**

Rapporteur:

**Theodoros Skylakakis**

Speakers:

- Vítor CALDEIRA - President of the European Court of Auditors
- Jean-Marie BERTRAND - Rapporteur-General and President of Chamber of the French Court of Auditors
- Christopher MIHM - Managing Director for Strategic Issues, GAO, USA
- Algirdas ŠEMETA - Commissioner responsible for Taxation, Customs, Statistics, Audit and Anti-Fraud



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EUROPEAN PARLIAMENT

2009 - 2014

*Committee on Budgetary Control*

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## Public Hearing

**on**

***"European Court of Auditors: from legality and regularity audits to evaluation of efficiency and effectiveness of EU projects and programmes.  
The special reports as a useful instrument for the legislator"***

**Wednesday 25 September 2013,  
15.00 – 18.30**

**European Parliament, Brussels**

**Room József Antall (JAN) 6Q2**

**RAPPORTEUR: Theodoros Skylakakis (ALDE)**

## PROGRAMME

**Opening remarks by Michael Theurer, Chair of the Committee on Budgetary Control**

**Introduction by the rapporteur Theodoros Skylakakis**

### ***Presentations - Part I***

**Performance audit of the federal spending in the U.S. - the experience of the U.S.  
Government Accountability Office**

**Christopher MIHM, Managing Director for Strategic Issues**

## **Performance audit: perspective of a National Court of Auditors**

**Jean-Marie BERTRAND**, Rapporteur-General and President of Chamber of the French Court of Auditors

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### ***Questions, replies, debate***

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## ***Presentations - Part II***

**Compliance audit versus performance audit, seen from the perspective of the European Court of Auditors**

**Vítor CALDEIRA**, President of the European Court of Auditors

**The use of result and impact indicators from the perspective of the European Commission**

**Algirdas ŠEMETA**, Commissioner responsible for Taxation, Customs, Statistics, Audit and Anti-Fraud in the European Commission

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### ***Questions, replies, debate***

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**Closing remarks by the rapporteur Theodoros Skylakakis**

# 1. Performance audit of the federal spending in the U.S. – the experience of the U.S. Government Accountability Office

By Christopher Mihm, Managing Director for Strategic Issues



Hearing on "European Court of Auditors: from legality and regularity audits to evaluation of efficiency and effectiveness of EU projects and programmes. The special reports as a useful instrument for the legislator"- 25 Sept. 2013  
Committee on Budgetary Control





Testimony  
Before the Committee on Budgetary  
Control, European Parliament

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For Release on Delivery  
Expected at 1500 (CEST)  
Wednesday, 25 September 2013

# PERFORMANCE AUDITING

## The Experiences of the United States Government Accountability Office

Statement of J. Christopher Mihm,  
Managing Director, Strategic Issues

# GAO Highlights

Highlights of [GAO-13-868T](#), a testimony before the Committee on Budgetary Control, European Parliament

## Why GAO Did This Study

GAO's mission is to support the U.S. Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people. Each year, GAO presents its findings, conclusions, and recommendations in reports and testimony before Congress. In fiscal year 2012, GAO issued more than 650 reports and testified 159 times before various congressional committees. Last fiscal year, financial benefits from GAO's work totaled \$55.8 billion U.S. dollars, a \$105 return on every dollar invested in GAO. In addition to financial benefits, GAO also documented 1,440 other benefits that shaped legislation, improved services to the public and strengthened government operations.

GAO and its counterparts, such as the European Court of Auditors, have unprecedented opportunities to help our respective governments plan ahead and address increasingly complex issues in meeting the challenges posed by global interconnections and worldwide fiscal difficulties. The experiences of GAO with respect to performance auditing illustrate how audit organizations can help decision makers address these challenges.

View [GAO-13-868T](#). For more information, contact J. Christopher Mihm at (202) 512-6806 or at [mihmj@gao.gov](mailto:mihmj@gao.gov).

25 September 2013

## PERFORMANCE AUDITING

### The Experiences of the United States Government Accountability Office

## What GAO Found

Performance audits as well as traditional financial and compliance audits are essential tools that national audit offices have to help their respective governments identify and address challenging national and global problems. Performance auditing provides objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

Increasingly complex issues, risks and problems that governments around the world confront are expanding the perspective of performance auditing. These issues, risks and problems such as modernizing outdated financial regulatory systems and protecting public safety, cut across geographic boundaries, government programs, levels of government and sectors. As government agencies increasingly rely on collaboration with private and nongovernmental entities and delegate responsibilities for implementing public policy initiatives to these entities, the line between the governmental and the nongovernmental sectors continues to blur.

From GAO's experience, performance auditing has a vital role in providing decision makers and citizens with the information, analysis, and recommendations they need to respond to this increasingly complex and interconnected environment.

To most effectively contribute to fundamental improvements in the performance of 21st century government, GAO has found that auditors need to be more and more focused on governance, including assessing and recommending how to improve connections across organizations, levels of government, sectors, and policy tools. While many of GAO's individual engagements examine the challenges a specific agency or program faces, three GAO-wide initiatives—the High Risk program; the annual reports on overlap, duplication, and fragmentation; and the reviews of the implementation of the Government Performance and Results Act Modernization Act of 2010—offer government-wide perspectives on the progress needed to respond effectively to 21st century governance challenges.



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Mr. Chairman and Members of the Committee:

Thank you for the opportunity to contribute to this important hearing and to share the experiences of the United States Government Accountability Office (GAO) with respect to performance auditing. GAO's mission is to support the U.S. Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.<sup>1</sup> GAO and its counterparts, such as the European Court of Auditors, have unprecedented opportunities to help our respective governments plan ahead and address the increasingly complex challenges posed by global interconnections and worldwide fiscal difficulties.

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## GAO's Work and Performance Auditing

GAO was established just over 90 years ago. After World War I, the U.S. Congress wanted better information on, and control over, government spending. In 1921, the Budget and Accounting Act required the President to issue an annual federal budget. This law also established GAO—then known as the General Accounting Office—as an independent agency to investigate how federal dollars are spent. In its early years, GAO did mainly voucher auditing. After World War II, however, GAO began to do more comprehensive financial audits that examined the economy and the efficiency of government operations.

In the 1960s, the expectations of the types of information GAO could provide evolved further. As a result, GAO began performance auditing and program evaluations to determine whether government programs were meeting their objectives. In the Legislative Reorganization Act of 1970<sup>2</sup> and the Congressional Budget and Impoundment Control Act of 1974,<sup>3</sup> Congress highlighted the role that GAO audits of government program results can play in support of its oversight and legislative functions. The 1974 language specifically requires the Comptroller General to review and evaluate the results of government programs and activities. As noted in a 1976 statement by then Assistant Comptroller

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<sup>1</sup> Appendix I shows GAO's mission, trends, strategic goals and objectives, and core values as presented in our strategic plan. See GAO, *Serving the Congress and the Nation 2010-2015*, [GAO-10-559SP](#) (Washington, D.C.: July 1, 2010).

<sup>2</sup> Pub. L. No. 91-510, 84 Stat. 1140 (October, 1970).

<sup>3</sup> Pub. L. No. 93-344, 88 Stat. 297 (July, 1974).

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General Ellsworth Morse, “managers and policy makers, particularly in government, want—and need—more from auditors than stereotyped opinions on financial statements. They want independently and objectively obtained and evaluated information on operations and performance and expert advice on such things as how improvements can be made, how money can be saved or used to better advantage and how goals or objectives can be achieved in better fashion and at less cost.”<sup>4</sup> In short, they want auditing focused on performance.

The U.S. Government Auditing Standards which govern our work describe performance audits as providing objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.<sup>5</sup> Performance audits evaluate evidence against stated criteria, such as specific requirements, measures, or defined business practices. This definition of performance auditing is consistent with international auditing standards.<sup>6</sup>

Our efforts today fall into three main areas: oversight, insight, and foresight. Our oversight activities determine whether government entities are carrying out their assigned tasks, spending funds for intended purposes, and complying with laws and regulations. Our insight activities determine which programs and policies work well and which ones do not. These efforts include sharing best practices and benchmarking information horizontally across government and vertically through different levels of government. Our foresight activities try to identify key trends and emerging challenges before they reach crisis proportions.

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<sup>4</sup> GAO, [Performance Auditing](#), GAO-094640 (Washington, D.C.: Apr. 21, 1976), p. 26.

<sup>5</sup> GAO, *Government Auditing Standards: 2011 Revision*, [GAO-12-331G](#) (Washington, D.C.: Dec. 1, 2011), p.17.

<sup>6</sup> The GAO work upon which this statement is based was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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Our work is based on a combination of legislative mandates, congressional requests, and work done under the Comptroller General's authority. We meet regularly with Members of Congress and their staff. These outreach efforts ensure that GAO stays at the forefront of high-priority issues facing Congress and the nation. We have protocols for how we respond to congressional requests for our studies. These protocols ensure that we deal consistently and transparently with all congressional committees and members. This is especially important since we do our work for all standing committees of the Congress and about 70 percent of its subcommittees. Our protocols help us to prioritize incoming requests and hold us accountable for the commitments we have made to Congress. In fiscal year 2012,<sup>7</sup> we received 924 congressional requests and new mandates. Performance audits make up the vast majority of our audits.

In the 2008 International Peer Review of the Performance Audit Practice of the United States Government Accountability Office,<sup>8</sup> the International Peer Review Team pointed out several features that distinguish our working environment from that of many of our international peers. The Peer Review noted that we carry out a larger volume of performance audit engagements each year and that the majority of the engagements we carry out are requested by Congress and not self-initiated.

The Peer Review also noted that in responding to congressional requests, we determine the scope and methodology for the work, the timing and staffing, product content, and the management structure. In addition, we have adopted a number of practices to balance our objective of being responsive to Congress while remaining nonpartisan and independent in serving the long-term interests of the American people. The Peer Review identified the following two practices as being particularly notable:

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<sup>7</sup> The U.S. fiscal year runs from October 1 to September 30.

<sup>8</sup> International Peer Review Team, *International Peer Review of the Performance Audit Practice of the United States Government Accountability Office* (May 30, 2008). The main purpose of the external peer review is to ensure that audit organizations comply with Generally Accepted Government Auditing Standards. Peer reviews also identify good practices that may interest other audit institutions and bring to light areas that may need attention from management.

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- Our strategic planning process involves Congress and other stakeholders in establishing key themes and high-risk areas that the government needs to manage well. Our high-risk series of reports, which I shall discuss shortly, focuses attention on government programs that pose significant risks of fraud, waste, abuse, and mismanagement.
  - Our engagement acceptance process focuses management's attention on the risks associated with each request, including risks to independence, and how the risks will be managed.

Our work leads to real results. Each year, we present our findings, conclusions, and recommendations in reports and testimony before Congress. For example, in fiscal year 2012, we issued more than 650 reports and testified 159 times before various congressional committees. In addition, nearly every one of our reports and testimonies is available on our website the day it is made public. We make it a point to regularly measure and report on our performance. Last fiscal year, financial benefits from our work totaled \$55.8 billion U.S. dollars. That is a \$105 return on every dollar invested in GAO. We also documented 1,440 other benefits that shaped legislation, improved services to the public, and strengthened government operations.<sup>9</sup> A driving force behind these accomplishments is our focus on following up on the status of our recommendations. At the end of fiscal year 2012, we found that 80 percent of the recommendations we had made in fiscal year 2008 had been implemented.<sup>10</sup> We measure over a 4-year period to allow time for proper implementation. This follow-up provides an additional opportunity for Congress to consider our work during oversight activities, for agencies to respond to our recommendations, and for the work needed to successfully address the issues to be completed.

Clearly, national audit offices can play a key role in providing public officials with vital information and analyses needed to address country-specific challenges. But it is also true that many of the problems we face today are global in nature and will require international cooperation with international solutions.

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<sup>9</sup> GAO, *Mission and Operations: Summary of GAO's Performance and Accountability Report Fiscal Year 2012*, [GAO-13-3SP](#) (Washington, D.C.: Feb. 15, 2013).

<sup>10</sup> [GAO-13-3SP](#).

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The International Organization of Supreme Audit Institutions (INTOSAI) has played an important role in this area. INTOSAI is an umbrella organization for the external government audit community that provides an institutionalized framework for the 191-member supreme audit institutions (SAI) to promote development and transfer of knowledge, improve government auditing worldwide, and enhance the professional capacities, standing, and influence of member SAIs in their respective countries. INTOSAI's work includes developing international auditing standards and helping SAIs around the world implement those standards. The INTOSAI Congress in 2010 adopted a comprehensive set of international standards for SAIs. Those standards cover the core audit disciplines of financial, compliance, and performance audits. They provide an institutionalized framework for transferring knowledge, improving government auditing worldwide, and enhancing the professional capabilities and influence of SAIs in their respective countries. Making the transition to include performance audits as well as traditional financial and compliance audits expands the range of tools that national audit offices have to help their respective governments identify and address challenging domestic and global problems.

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## Increasingly Complex Issues Are Expanding the Perspective of Performance Auditing

The issues, risks, and problems that governments around the world confront are growing increasingly complex and boundary-spanning. That is, those issues, risks, and problems cut across geographic boundaries, government programs, levels of government, and sectors. As government agencies increasingly rely on collaboration with private and nongovernmental entities and delegate responsibilities for implementing public policy initiatives to these entities, the line between the governmental and the nongovernmental sectors continues to blur. For the United States, policy makers must consider global and local risks, connections, and supply chains if national policy initiatives, such as protecting the security of citizens; reforming national tax laws; modernizing outdated financial regulatory systems; and protecting public safety in the areas of medical products, food and consumer goods, are to be effective.

These issues are, of course, not unique to the United States. The January 2012 report *The European Parliament in 2025: Preparing for Complexity*, an initiative of the Secretary-General of the European Parliament, identified four concepts which give an idea of the increased complexity likely to be present in 2025:

- the political multi-polarity of the globalised world,



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- the preponderance of multilevel governance,
  - the increase in the number of factors contributing to the drafting and implementation of public policies, and
  - technology as a factor in the speed of change.<sup>11</sup>

The report concluded that “the new multi-polarity of the globalised world, the multilevel nature of governance, the multiple players interacting in law-making, are likely to create a new context for the European Parliament directly or indirectly. This heightened complexity may entail risks of fragmentation of (economic) governance, regulation and law. Fragmentation may lead to a loss of coherence, systematic overlaps and lasting conflicts between jurisdictions, as well as to an institutional paralysis, and, then, to democratic frustration, as it becomes more and more difficult to understand who is producing change in regulation and should be made accountable for success and failures. In order to contribute actively to prevent the risk of political and regulatory fragmentation, the European Parliament has to prepare itself for this upcoming complexity.”<sup>12</sup>

Performance auditing has a vital role in providing decision makers and citizens with the information, analysis, and recommendations they need to respond to this increasingly complex and interconnected environment. To most effectively contribute to fundamental improvements in the performance of 21st century government, we are finding that auditors need to be more and more focused on governance—that is, assessing and improving connections across organizations, levels of government, sectors, and policy tools. In practice, this has several important implications for the focus of our work overall, and for our performance audits in particular. The following are among those implications:

- Reviewing government’s results-orientation, such as the extent to which agencies have an appropriate crosscutting (also often called whole of government or enterprise) perspective to their intended results as well as using innovative approaches to better achieve results.

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<sup>11</sup> European Parliament, *The European Parliament 2025: Preparing for Complexity*, PE479.851/BUR (Brussels: Jan. 26, 2012).

<sup>12</sup> *The European Parliament 2025: Preparing for Complexity*.

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- Evaluating collaborative mechanisms, such as efforts to ensure that agencies are effectively coordinating their efforts across levels of government and with other sectors.
  - Examining the interplay of the range of public policy tools, such as grants, contracts, tax expenditures and regulations, that are being used to achieve results to ensure that they are effective and mutually reinforcing.
  - Exploring opportunities to use web and social media technologies to improve government transparency and public reporting to foster greater public participation and civic engagement.
  - Assessing government's capacity to respond to governance challenges such as agencies' risk management programs to ensure that they systematically integrate the identification and management of risk into strategic and program planning.

While many of our individual engagements examine the challenges a specific agency or program faces, three GAO-wide initiatives—our High Risk program; our annual reports on overlap, duplication, and fragmentation; and our reviews of the implementation of the Government Performance and Results Act Modernization Act of 2010—offer government-wide perspectives on the progress needed to respond effectively to 21st century governance challenges.

High Risk: Our work under our High Risk program documents the challenges of managing in a complex governance environment. We began the High Risk program in 1990 and initially focused on bringing attention to government operations that had greater vulnerabilities to waste, fraud, abuse, and mismanagement. Those issues remain a central focus of the High Risk program today. However, in recognition that many of the high-risk issues we were finding were the product of poor working relationships across organizational boundaries, especially with third parties such as contractors, we expanded our focus to include critical areas needing transformation to address economy, efficiency, and effectiveness challenges.

By using the tools of performance auditing as well as financial and compliance audits, we are able to provide forward-looking recommendations to address the High Risk areas. This is especially relevant since more than two-thirds of the 30 areas on our 2013 High Risk List<sup>13</sup> cut across agencies, levels of government, and sectors of the

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<sup>13</sup> GAO, *High-Risk Series: An Update*, [GAO-13-283](#) (Washington, D.C.: Feb. 14, 2013).

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economy. For example, we designated limiting the federal government's fiscal exposure by better managing climate change risks as high risk in 2013 because the federal government is not well positioned to address the fiscal exposure presented by climate change, and needs a government-wide strategic approach with strong leadership to manage related risks. Such an approach includes the establishment of strategic priorities and the development of roles, responsibilities, and working relationships among federal, state, and local entities. Recognizing that each department and agency operates under its own authorities and responsibilities—and can therefore be expected to address climate change in different ways relevant to its own mission—existing federal efforts have encouraged a decentralized approach, with federal agencies incorporating climate-related information into their planning, operations, policies, and programs. The challenge is to develop a cohesive approach at the federal level that also informs action at the state and local levels. Overall, our High Risk program has served to identify and help resolve serious weaknesses in program areas that involve substantial resources and provide critical services to the public.

Overlap, Duplication, and Fragmentation: Our work on overlap, duplication, and fragmentation provides additional illustrations of the governance challenges decision makers face. We have issued three annual reports on overlap, duplication, and fragmentation across the federal government.<sup>14</sup> These reports provided a comprehensive look at 162 issue areas and identified more than 380 actions that the executive branch and Congress could take to reduce fragmentation, overlap, and duplication, as well as other cost savings and revenue enhancement opportunities.

All told, the three reports have covered virtually every major federal agency and program including agriculture, defense, economic development, education, energy, general government, health, homeland security, international affairs, science and the environment, and social services. For example, we reported that a fundamental re-examination

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<sup>14</sup> GAO, *2013 Annual Report: Actions Needed to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits*, [GAO-13-279SP](#) (Washington, D.C.: Apr. 9, 2013); *Follow-up on 2011 Report: Status of Actions Taken to Reduce Duplication, Overlap, and Fragmentation, Save Tax Dollars, and Enhance Revenue*, [GAO-12-453SP](#) (Washington, D.C.: Feb. 28, 2012); and *Government Operations: Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, [GAO-11-318SP](#) (Washington, D.C.: Mar. 1, 2011).

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and reform of the United States' surface transportation policies is needed and identified a number of principles to help the Congress in re-examining and reforming the nation's surface transportation policies. These principles included ensuring the federal role is defined based on identified areas of national interest and goals, incorporating accountability for results by entities receiving federal funds, employing the best tools and approaches to emphasize return on targeted federal investment, and ensuring fiscal sustainability. Building on those principles, the Moving Ahead for Progress in the 21st Century Act was signed into law in July 2012, and reauthorized the nation's surface transportation programs through the end of fiscal year 2014.<sup>15</sup> The law addressed fragmentation in those programs and made progress in addressing the issues we raised, including clarifying federal goals and roles and linking federal programs to performance to ensure accountability for results. Specifically, it incorporated accountability for results around clearly identified national goals, providing the framework for the Department of Transportation and the states to implement this approach in the coming years. However, as we reported in January 2013, Congress needs to develop a long-term plan for funding surface transportation and opportunities exist for a more targeted federal role focused around evident national interests.<sup>16</sup>

In addition to identifying new areas, and consistent with the commitment expressed in our prior overlap, duplication, and fragmentation reports, we monitor the progress executive branch agencies and Congress have made in addressing the areas previously identified. GAO's Action Tracker—available on our website—contains the status of the specific suggestions for improvement that we identified in our three annual reports.<sup>17</sup> Overall, the executive branch and Congress have made some progress in addressing the areas that we identified in our 2011 and 2012 annual reports. Specifically, as of March 6, 2013, the date we completed our audit work for our most recent report, about 12 percent of the areas identified in our 2011 and 2012 reports were addressed, 66 percent were partially addressed, and 21 percent were not addressed. More recently, both the administration and Congress have taken additional steps, including proposals in the President's Fiscal Year 2014 Budget.

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<sup>15</sup> Pub. L. No. 112-141, 126 Stat 405 (July, 2012).

<sup>16</sup> GAO, *Transportation: Highway Trust Fund Obligations, Fiscal Years 2009 to 2011*, [GAO-13-193R](#) (Washington, D.C.: Jan. 16, 2013).

<sup>17</sup> See [http://www.gao.gov/duplication/action\\_tracker/](http://www.gao.gov/duplication/action_tracker/)

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The Government Performance and Results Act Modernization Act of 2010: The Government Performance and Results Act Modernization Act of 2010 (the act) seeks, among other things, to instill a more coordinated and crosscutting perspective to federal performance through actions such as requiring the administration to select a set of cross-agency priority goals.<sup>18</sup> For example, goals concerning workforce development, export promotion, and sustainability are among the interim goals that the administration has established. It also requires federal agencies in setting their own goals to identify other entities that are involved in achieving those goals.

The act requires GAO to assess implementation and results at several key points. Through the use of performance audits, we reported in June 2013 that the executive branch has taken a number of steps to implement key provisions of the act.<sup>19</sup> Nevertheless, our work has shown that the executive branch needs to do more to fully implement and leverage the act's provisions to address governance challenges in several key areas including:

- The Office of Management and Budget and agencies have made some progress addressing crosscutting issues but are missing additional opportunities.
- Ensuring performance information is useful and used by managers to improve results remains a weakness, but key performance management and program evaluation practices hold promise.
- Agencies have taken steps to align daily operations with agency results but continue to face difficulties measuring performance.
- Communication of performance information could better meet users' needs.
- Agency performance information is not always useful for congressional decision making.

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<sup>18</sup> Pub. L. No. 111-352, 124 Stat. 3866 (Jan. 4, 2011). The GPRA Modernization Act of 2010 updated and enhanced the strategic planning and performance measurement requirements of the Government Performance and Results Act of 1993 (Pub. L. No. 103-62).

<sup>19</sup> GAO, *Managing For Results: Executive Branch Should More Fully Implement the GPRA Modernization Act to Address Pressing Governance Challenges*, [GAO-13-518](#) (Washington, D.C.: June 26, 2013).



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Over the past four decades our experience in incorporating performance auditing into our overall audit approach has enabled us to help address the complexity facing government. Performance audits, in addition to financial and compliance audits, have allowed us to meet our mission to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people. Performance auditing provides GAO with the tools necessary to provide the oversight, insight, and foresight needed to address issues of today.

Mr. Chairman and Members of the Committee, this concludes my prepared statement. I look forward to responding to any questions that you may have.

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## Contacts and Staff Acknowledgments

If you or your staffs have any questions about this testimony, please contact J. Christopher Mihm, Managing Director, Strategic Issues, at +1-202-512-6806 or at [mihmj@gao.gov](mailto:mihmj@gao.gov). Individuals who made key contributions to this testimony are Bill Reinsberg (Assistant Director) and Jon Stehle.

# Appendix I



## Serving the Congress and the Nation GAO's Strategic Plan Framework

### MISSION

**GAO** exists to support the Congress in meeting its constitutional responsibilities and to help improve the performance and ensure the accountability of the federal government for the benefit of the American people.

### TRENDS

National Security Threats    Fiscal Sustainability Challenges    Economic Recovery and Growth    Global Interdependence    Science and Technology    Networks and Virtualization    Shifting Roles of Government    Demographic and Societal Change

Goals	Objectives
<b>Provide Timely, Quality Service to the Congress and the Federal Government to...</b> <b>...Address Current and Emerging Challenges to the Well-being and Financial Security of the American People related to...</b>	<ul style="list-style-type: none"> <li>Health care needs</li> <li>Lifelong learning</li> <li>Benefits and protections for workers, families, and children</li> <li>Financial security</li> <li>Effective system of justice</li> <li>Viable communities</li> <li>Stable financial system and consumer protection</li> <li>Stewardship of natural resources and the environment</li> <li>Infrastructure</li> </ul>
<b>...Respond to Changing Security Threats and the Challenges of Global Interdependence involving...</b>	<ul style="list-style-type: none"> <li>Homeland security</li> <li>Military capabilities and readiness</li> <li>U.S. foreign policy interests</li> <li>Global market forces</li> </ul>
<b>Help Transform the Federal Government to Address National Challenges by assessing...</b>	<ul style="list-style-type: none"> <li>Government's fiscal position and options for closing gap</li> <li>Fraud, waste, and abuse</li> <li>Major management challenges and program risks</li> </ul>
<b>Maximize the Value of GAO by Enabling Quality, Timely Service to the Congress and Being a Leading Practices Federal Agency in the areas of...</b>	<ul style="list-style-type: none"> <li>Efficiency, effectiveness, and quality</li> <li>Diverse and inclusive work environment</li> <li>Professional networks and collaboration</li> <li>Institutional stewardship and resource management</li> </ul>

### CORE VALUES

Accountability

Integrity

Reliability

Source: GAO.

GAO Strategic Plan 2010-2015

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## GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

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## Public Affairs

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## 2. Performance audit: perspective of a National Court of Auditors

By Jean-Marie Bertrand, Rapporteur-General  
and President of Chamber of the French  
Court of Auditors



Hearing on "European Court of Auditors: from legality and regularity audits to evaluation of efficiency and effectiveness of EU projects and programmes. The special reports as a useful instrument for the legislator"- 25 Sept. 2013  
Committee on Budgetary Control





**La Cour des comptes européenne : de l'audit de régularité à l'évaluation de  
l'efficience et de l'efficacité des projets et des programmes européens**

**Les rapports spéciaux comme instrument utile pour le législateur**

**Mercredi 25 septembre 2013**

*Intervention de Jean-Marie Bertrand, rapporteur général de la Cour des  
comptes française, devant la commission du contrôle budgétaire du Parlement  
européen*

*L'audit de performance : le point de vue d'une cour des comptes nationale*

Monsieur le Président,

Mesdames et Messieurs les députés,

Mesdames, Messieurs,

Je souhaite en préalable à mon intervention vous remercier, Monsieur le président, d'avoir invité la Cour des comptes française à vous exposer son point de vue sur l'audit de performance, dans le cadre de l'audition publique que vous

avez souhaité consacrer au rôle de la Cour des comptes européenne dans l'évaluation de l'efficience et de l'efficacité des projets et des programmes européens. Je suis particulièrement heureux de m'exprimer après le représentant du *Government Accountability Office* (GAO) avec lequel la Cour entretient des relations amicales, et qui est membre, comme la Cour des comptes française, de l'Organisation Internationale des Institutions Supérieures de Contrôle des Finances Publiques (INTOSAI).

Le Premier président, Monsieur Didier Migaud, m'a demandé de bien vouloir l'excuser auprès de vous : il n'a pu faire le déplacement aujourd'hui, en raison de son audition, en sa qualité de président du Haut Conseil des finances publiques, devant la commission des finances de l'Assemblée nationale. Croyez bien qu'il regrette de ne pouvoir intervenir devant vous et qu'il aurait été aimé pouvoir répondre à vos questions.

Avant d'aborder le point de vue de la Cour sur l'audit de performance, je voudrais évoquer, en introduction, les missions exercées par la Cour des comptes en France.

La Cour est une juridiction de l'ordre administratif, indépendante tant du pouvoir exécutif que du pouvoir législatif. Elle programme librement ses travaux comme une décision du Conseil constitutionnel du 25 juillet 2001 l'a rappelé, en faisant de cette liberté de programmation une garantie de son

indépendance. L'ensemble de ses travaux répondent aux trois grands principes d'indépendance, de contradiction et de collégialité.

Les deux missions historiques de la Cour sont le contrôle de la gestion des administrations publiques et le jugement des comptes produits par les comptables publics.

La Cour est donc investie d'un pouvoir de contrôle large, qui couvre l'ensemble des comptes et des gestions publics : ceux de l'État et de ses opérateurs, des institutions de protection sociale (secteur, par son volume financier, plus important encore que les administrations de l'Etat), des entreprises publiques ou des organismes bénéficiaires de concours financiers publics. Si le contrôle des comptes et de la gestion des collectivités territoriales et des organismes qui en dépendent, est exercé par les chambres régionales et territoriales de comptes, qui sont également des juridictions indépendantes, la Cour assure, avec leur collaboration, le suivi d'ensemble des finances publiques locales. Elle publiera prochainement un rapport de synthèse à ce sujet. Enfin il convient de rappeler qu'elle vérifie également l'emploi de certains fonds privés pour les dons collectés par les organismes faisant appel à la générosité publique ou pour les dons ouvrant droits à un avantage fiscal.

L'activité de contrôle de la Cour des comptes s'exerce sur deux aspects :

- un contrôle de conformité par lequel elle contrôle la régularité des opérations budgétaires et comptables, et s'assure du respect des bonnes pratiques de gestion. Si ce contrôle révèle des irrégularités, la mise en œuvre d'une procédure juridictionnelle peut amener la Cour à mettre en jeu la responsabilité personnelle et pécuniaire des comptables publics. En ce qui concerne les ordonnateurs, la Cour ne peut elle-même directement mettre en jeu leur responsabilité, mais elle peut saisir la Cour de discipline budgétaire et financière (CDBF). Celle-ci est aussi une juridiction financière et elle est présidée également par le Premier président de la Cour des comptes ; elle a pour rôle de sanctionner par des amendes les ordonnateurs reconnus coupables d'infractions à l'ordre public financier ;
- un audit de performance. Il s'agit d'examiner à la fois le rapport entre les moyens engagés et les résultats obtenus (l'efficience) et le rapport entre les résultats obtenus et les objectifs fixés (l'efficacité). Cet audit de performance porte sur des organismes ou plus largement sur des politiques publiques. Je reviendrai plus précisément sur ce point.

Dans les activités de contrôle de la Cour, il faut également citer l'examen de la situation d'ensemble des finances publiques pour chacun des trois sous-ensembles des administrations publiques (État, sociales et locales).



Se sont ajoutées plus récemment deux autres missions, celle de certifier les comptes de l'État et du régime général de la sécurité sociale depuis 2006, ainsi que l'assistance au Parlement et au Gouvernement dans l'évaluation des politiques publiques depuis 2008.

Pour exercer ses quatre missions (contrôler, juger, certifier et évaluer), la Cour emploie 411 personnels de contrôle (dont 228 magistrats) et 211 personnels administratifs (chiffres 2012). Ses travaux ont pour but de garantir la régularité et la qualité de la gestion publique, ainsi que la probité des gestionnaires. Ils permettent également d'éclairer les décideurs publics sur les insuffisances de la gestion publique et d'entraîner des réformes. C'est pourquoi la Cour accompagne systématiquement ses observations de recommandations dont elle vérifie, après quelques années, l'application. Le rapport public annuel dresse chaque année un bilan du suivi de l'ensemble des recommandations émises par la Cour dans ses rapports des années précédentes.

**Après cette brève présentation des missions de la Cour des comptes, je voudrais revenir quelques instants sur l'importante réforme qu'ont connu les finances publiques françaises il y a une douzaine d'années, réforme qui a permis une plus grande transparence des comptes publics avec une présentation plus claire et fonctionnelle de la situation budgétaire et patrimoniale de l'Etat et un renforcement des pouvoirs de contrôle du**

**Parlement. Cette réforme a sensiblement modifié la manière dont notre Juridiction exerce ses missions.**

Pendant plus de quarante ans, les finances publiques françaises ont été régies par l'ordonnance du 2 janvier 1959 portant loi organique relative aux lois de finances : les dépenses de l'Etat étaient présentées par chapitre et par ministère, en fonction de l'organisation de l'administration, sans ouvrir toutes les possibilités d'une réflexion sur les finalités de la dépense publique. L'efficacité de la dépense publique n'était pas mesurée.

La nouvelle loi organique promulguée le 1er août 2001, dite LOLF - dont vous savez que Didier Migaud, alors rapporteur général de la commission des finances de l'Assemblée nationale, a été l'un des co-auteurs - a procédé à la rénovation nécessaire de notre cadre budgétaire et comptable. Depuis 2006, le budget de l'Etat est organisé en missions et en programmes. Une mission, interministérielle ou ministérielle, comprend un ensemble de programmes concourant à une politique publique définie. Un programme regroupe les crédits destinés à mettre en œuvre une action ou un ensemble d'actions relevant d'un même ministère. Les crédits sont justifiés au premier euro (JPE) et les emplois sont votés dans le cadre d'un plafond par ministère. Cette présentation du budget de l'Etat permet au gouvernement d'éclairer le Parlement sur la justification des dépenses proposées, sur leurs finalités, et de rendre par la suite compte de leur utilisation.

Aux termes de la LOLF, la performance d'une politique publique est mesurée par des objectifs, assortis de cibles, et par des résultats déclinés en trois catégories : efficacité socio-économique pour juger les bénéfices attendus des politiques publiques pour le citoyen, qualité du service rendu à l'usager, et efficience, c'est-à-dire l'optimisation des moyens employés. Elle est mesurée par des indicateurs chiffrés. Chaque objectif assorti d'indicateurs fait l'objet d'une présentation dans le projet annuel de performances (PAP) établi pour chacun des programmes et associé au projet de loi de finances et d'un compte-rendu dans le rapport annuel de performances (RAP) associé au projet de loi de règlement.

La LOLF a également pour objet de responsabiliser les gestionnaires de l'argent public. Les responsables de programme sont clairement désignés. Ils détaillent leurs objectifs et mesurent leurs résultats. Ils peuvent modifier la répartition des crédits en gestion dans le cadre de leur programme sous la réserve de ne pas abonder les crédits de personnel par d'autres catégories de dépenses (fonctionnement, intervention, investissement).

La LOLF poursuivait ainsi trois objectifs principaux : mieux définir les politiques financées par l'argent public, leur stratégie et leurs contours ; affirmer la responsabilité des décideurs publics en élargissant leurs marges de manœuvre et en les dotant de nouveaux outils de gestion ; et enfin améliorer les résultats de la gestion publique, en termes d'efficience, d'efficacité et de qualité de service

rendu au citoyen, grâce à la formulation d'objectifs, présentés au Parlement, et à l'introduction d'indicateurs de performance permettant de mesurer les résultats.

La LOLF a imposé à l'Etat de tenir non seulement une comptabilité des recettes et des dépenses budgétaires mais également une comptabilité générale de l'ensemble de ses opérations destinée à fournir une image complète et fiable de sa situation financière. Elle a confié à la Cour des comptes la mission de certifier la régularité, la sincérité et la fidélité ses comptes.

Cette réforme s'est accompagnée du renforcement des pouvoirs budgétaires du Parlement lui permettant de mieux exercer, avec le concours de la Cour des comptes, ses pouvoirs de contrôle et d'évaluation.

**Car la LOLF en 2001, et depuis lors la loi organique du 2 août 2005 relative aux lois de financement de la sécurité sociale (LOLFSS) et plus récemment encore la révision constitutionnelle du 23 juillet 2008, n'ont cessé de renforcer les compétences de la Cour des comptes et de conforter son rôle d'assistance au Parlement et au Gouvernement.**

En application de la LOLF et de la LOLFSS, la Cour des comptes établit désormais six rapports annuels qui viennent en appui de la réflexion du gouvernement et des travaux parlementaires sur les finances publiques :

- les deux rapports de certification des comptes de l'Etat et des comptes du régime général de sécurité sociale. La certification a pour objet de

donner une assurance raisonnable sur la qualité des comptes et, par conséquent, sur l'image qu'ils donnent de la situation financière de l'État, de son patrimoine et de ses dettes et des risques auxquels il est exposé ;

– trois rapports sur l'exécution des finances publiques :

- un rapport sur les résultats et la gestion budgétaire de l'Etat (RRGB) accompagné d'analyses de l'exécution du budget par mission et par programme (64 analyses ont été publiées cette année), qui informe le Parlement sur la régularité de l'exécution budgétaire, la démarche de performance et la soutenabilité de chacune des missions du budget de l'Etat au moment de l'examen du règlement des comptes de l'Etat de l'année passée ;
- un rapport sur l'application des lois de financement de la sécurité sociale (RALFSS) qui est présenté avant l'examen par le Parlement du projet de loi de financement de la sécurité sociale de l'année suivante, et qui traite également de la performance de l'action publique dans le domaine de la sécurité sociale et de la soutenabilité des finances sociales ;
- un rapport qui concerne les ouvertures de crédits par décret d'avance dans le budget de l'Etat ;

- enfin, le rapport sur la situation et les perspectives des finances publiques (RSPFP), sur lequel s'appuie notamment le débat d'orientation des finances publiques qui a lieu chaque année au début de l'été.

Le prochain rapport sur les finances publiques locales complétera l'éventail des rapports annuels sur les finances publiques, les trois sous-secteurs des administrations publiques étant désormais couverts.

Outre ces rapports annuels, les commissions des finances et des affaires sociales du Parlement peuvent, en application de la LOLF et de la LOLFSS, demander des enquêtes à la Cour, qui dispose de huit à douze mois pour les réaliser. En 2012, 15 enquêtes ont ainsi été remises aux assemblées parlementaires sur des sujets extrêmement divers (le centre national de la cinématographie, l'entretien du réseau ferré national, le coût de la réintégration de la France dans le commandement intégré de l'OTAN etc.). La détermination des sujets d'enquêtes fait l'objet d'échanges préalables entre la Cour des comptes et les deux assemblées parlementaires, afin de pouvoir être intégrées dans les meilleures conditions au programme de travail de la juridiction et de ne pas porter atteinte à sa liberté de programmation. Une fois remis au Parlement, ces rapports donnent lieu à une audition des magistrats de la Cour, souvent en la présence des responsables des administrations concernées, et font l'objet d'une publication.

La révision constitutionnelle du 23 juillet 2008 a conforté et renforcé le rôle de la Cour en introduisant un nouvel article 47-2 dans la Constitution française dont le premier alinéa dispose : *La Cour des comptes assiste le Parlement dans le contrôle de l'action du Gouvernement. Elle assiste le Parlement et le Gouvernement dans le contrôle de l'exécution des lois de finances et de l'application des lois de financement de la sécurité sociale ainsi que dans l'évaluation des politiques publiques. Par ses rapports publics, elle contribue à l'information des citoyens.*

La Cour des comptes française se voit donc confiée une large compétence : non seulement elle assiste le Parlement et le Gouvernement dans le contrôle des finances publiques, mais elle contribue plus largement à l'information des citoyens. Par ailleurs, elle apporte également son concours à l'évaluation des politiques publiques.

### **Comment la Cour des comptes réalise-t-elle ses audits de performance ?**

Si l'on reprend les quatre missions exercées par la Cour (contrôler, juger, certifier et évaluer), ce sont les missions de contrôle et d'évaluation de la Cour qui se rattachent le plus directement à l'audit de performance, même si les missions de juge et de certificateur en sont indissociables. Toutefois, le terme « d'audit de performance » n'est pas une notion juridique en droit français, où

l'on se réfère à la notion d'examen de gestion ou, selon une formation historique, le contrôle du « bon emploi » des deniers publics.

Lorsque la Cour décide de procéder au contrôle d'un organisme public ou bénéficiant de fonds publics, après notification de contrôle à l'organisme contrôlé, les magistrats instructeurs procèdent à un examen approfondi des comptes et de la gestion, passant en revue la situation financière de l'organisme, les différentes catégories de dépenses (fonctionnement, investissement), les procédures de contrôle interne etc.

Mais le contrôle ne s'arrête pas à l'examen de la gestion *stricto sensu*, il porte également sur la politique publique à laquelle concourt ou que met directement en œuvre l'organisme contrôlé : la Cour n'élabore pas elle-même des objectifs et des indicateurs mais se réfère aux objectifs et indicateurs présentés dans la loi de finances en application de la LOLF, ou encore définis de manière contractuelle entre l'Etat et l'organisme public dans un contrat d'objectifs et de moyens (COM) pour mesurer les résultats de l'action publique. Elle peut, bien entendu, après examen, estimer que les indicateurs ne sont pas les plus pertinents au regard des objectifs poursuivis et proposer que, par exemple, d'autres indicateurs soient développés. Les contrôles de la Cour donnent lieu à des observations provisoires qui sont communiquées à l'organisme, puis après une phase de contradiction, des observations définitives sont formulées, le cas échéant assorties de recommandations.



Par ailleurs, la Cour procède également à des évaluations de politiques publiques, soit de sa propre initiative, soit à la demande du Parlement. Ces évaluations portent sur une politique publique prise dans son ensemble et non sur un dispositif ou sur une organisation. Elles s'attachent aux objectifs poursuivis, aux effets constatés ainsi qu'aux moyens et processus utilisés et visent à examiner la pertinence de la mise en œuvre d'une politique publique au regard de sa cohérence, de son efficacité, de son efficience et de son utilité.

La spécificité de ces évaluations est que la Cour a recours à des experts extérieurs, utilise des outils d'analyse (échantillonnage, par exemple), implique des parties prenantes dans l'examen de la mise en œuvre de la politique considérée, et s'attache à identifier les liens de causalité qui peuvent expliquer les plus ou moins bons résultats de la politique. Cette démarche est donc transversale, pluridisciplinaire, partenariale, comparative et axée sur la recherche de voies concrètes de progrès. A la différence du contrôle des performances, l'évaluation choisit, voire construit, les indicateurs qui apparaissent les plus adaptés. Elle complète donc la capacité de la Cour à apprécier la mise en œuvre des politiques publiques, mais ce sont des travaux lourds et donc peu nombreux, quatre ou cinq évaluations chaque année, pas plus.

La Cour a procédé en 2012 à une évaluation des politiques de lutte contre le tabagisme et de la politique de soutien à la création d'entreprises. Ces évaluations ont été remises au Comité d'évaluation et de contrôle (CEC) de

l'Assemblée nationale. Elle a également procédé, de sa propre initiative, à une évaluation de la politique d'aide aux biocarburants et de la politique en faveur de l'assurance-vie.

En conclusion, en dehors des rapports annuels prévus par la LOLF et la LOLFSS, que j'ai déjà mentionnés la Cour fait connaître les observations résultant de ses contrôles sous plusieurs formes :

- *des observations définitives* adressées directement à l'organisme contrôlé et qui ne sont pas rendues publiques (mais dont les commissions des finances et commissions d'enquête du Parlement peuvent avoir connaissance) ;
- *des référés* qui sont des observations adressées directement au Gouvernement sur la gestion des services de l'État et qui sont communiquées au Parlement et publiées dans un délai de deux mois avec la réponse du ministre (chaque année, une trentaine de référés sont ainsi rendus publics) et des *rapports particuliers* sur les entreprises publiques, qui sont adressés aux organismes contrôlés et au Gouvernement et communiqués au Parlement ;
- *un rapport public annuel et des rapports publics dits « thématiques »* (une quinzaine par an). Ils s'adressent aux pouvoirs publics mais aussi plus directement au citoyen et couvrent un champ généralement plus

large en faisant par exemple la synthèse de nombreux contrôles. La Cour a publié au cours des six derniers mois des rapports publics thématiques sur les thèmes suivants : le marché du travail, l'organisation territoriale de l'Etat, la gestion des enseignants, la politique publique en faveur du développement des énergies renouvelables, le sauvetage de la banque Dexia, etc.

La Cour des comptes exerce donc en France des missions particulièrement larges, notamment en raison du renforcement de ses compétences depuis une quinzaine d'années. L'adoption de la LOLF en 2001 a permis de modifier profondément la présentation du budget de l'Etat en privilégiant une approche par politique publique et en donnant des références pour mesurer l'efficacité et l'efficience de la dépense publique, même si, comme la Cour l'a souligné dans un rapport public de novembre 2011, dix ans après la promulgation de la LOLF, la perspective d'une nouvelle gestion par grandes politiques publiques, appuyée sur des responsabilités plus affirmées et animée par le souci des résultats, a été freinée par une certaine réticence de l'administration aux changements, et même si le rôle d'aiguillon revenant au Parlement aurait pu aussi être exercé plus vigoureusement. Par ses nombreux contrôles, la Cour des comptes française, juridiction indépendante du Parlement et du Gouvernement, apporte en tout état de cause sa contribution à cette mesure des résultats de l'action publique. Au-delà des observations et recommandations adressées aux

pouvoirs publics, sa mission fondamentale est de rendre compte au citoyen de l'utilisation de l'argent public, conformément aux dispositions de l'article 15 de la déclaration des droits de l'homme et du citoyen selon lequel « La société a le droit de demander compte à tout agent public de son administration ».

### 3. Compliance audit versus performance audit, seen from the perspective of the European Court of Auditors

By Vítor Caldeira, President of the European  
Court of Auditors



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Hearing on "European Court of Auditors: from legality and regularity audits to evaluation of efficiency and effectiveness of EU projects and programmes. The special reports as a useful instrument for the legislator"- 25 Sept. 2013  
Committee on Budgetary Control



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## Hearing of the Committee on Budgetary Control of the European Parliament

Brussels, 25 September 2013

Speech of Vítor Caldeira, President of the ECA

Chairman Theurer,

Honourable Members of the Committee,

Let me thank you for the opportunity of addressing this committee on a very important topic for the Court.

The title given in the programme to my intervention is “Compliance audit versus performance audit, seen from the perspective of the ECA”.

It echoes a remark of a distinguished speaker at a previous hearing on a similar subject. On that occasion, Professor Levy finished his expert submission with a question: which is more important – performance or compliance?

I think it is a dangerous question because it risks setting up a false choice. It is not a question of one or the other: compliance or performance. For the Court’s audits, it has to be both - for a number of reasons.

The first reason is **legal**. The Treaty on the Functioning of the European Union requires the Court to *examine whether all revenue has been received and all expenditure incurred in a lawful and regular manner and whether the financial management has been sound*.

The Financial Regulation on the implementation of the EU budget defines sound financial management as applying the principles of economy, efficiency and effectiveness.

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The Court's mandate mirrors the Commission's responsibilities for managing the implementation of the budget. The Treaty requires the EU budget to be used in accordance with the principles of sound financial management and the relevant EU legal instruments.

Similarly, the European Parliament is required to give discharge on the basis of both elements, regularity and sound financial management.

To make that possible, the Commission must provide EU accounts showing how resources were raised and spent and – since the Lisbon Treaty – an evaluation report based on the results achieved. In addition, the Court prepares its annual and special reports – they act as a complementary independent source of information and assurance.

How the Court should meet its audit and reporting obligations is a matter for the Court to decide itself, applying the principle of institutional independence.

This leads me to the second reason why we need to be careful not to make too much of the compliance versus performance distinction. The reason is **professional**.

The Court is a recognised Supreme Audit Institution, like the GAO of the United States and the French Cour des comptes.

That means it is obliged to respect the framework of International Standards for Supreme Audit Institutions, known as "ISSAIs". These standards provide a basis for the Court to interpret its mandate and to carry out its audit tasks under the Treaty.

The ISSAI framework identifies three types of audit: financial, compliance and performance. Financial audit covers the reliability of financial reporting.

Compliance audit covers regularity. And performance audit assesses economy, efficiency and effectiveness.



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It is worth noting that compliance audit can be carried out on its own, or in combination with financial audit or performance audit.

Reflecting the provisions of the Treaty, the Court takes the combined approach. The Court's DAS audits are an example of compliance audits carried out as part of an audit of financial accounts. The Court's performance audits almost always include criteria which reflect compliance with the provisions of legislation.

So, from a theoretical perspective, I think we need to be careful not to focus too strongly on the differences between the three types of audit. They are tools that are best used together.

The third reason for not over-emphasising their difference is more **practical**.

In reality, the compliance and performance issues associated with implementing the budget are interrelated. Our auditing and reporting tries to reflect this fact.

The Court's DAS audit shows that errors of regularity are very often cases where spending did not hit the target or was used sub-optimally. Typical errors in our annual report include payments for expenditure which was ineligible or for purchases without proper application of public procurement rules.

The Court uses the results of its DAS work, which covers the whole budget, to identify specific areas where performance might be at risk.

The Court also carries out performance audits that lead to observations in our special reports which highlight regularity issues that have implications for economy, efficiency and effectiveness.

In this way, performance audits then provide a basis for recommendations in special reports – or in opinions on legislative proposals - on how to improve legal frameworks in order to reinforce performance.

This brings me to the final – and perhaps the most relevant – reason, which is **public interest**.

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We do not carry out our DAS and performance audits simply because we must. We do it also because it contributes to ensuring effective accountability to EU citizens for every euro raised and spent in the EU budget.

Our strategic objective for the 2013 to 2017 period is to maximise the value of the ECA's contribution to improving EU public accountability.

Our priority is to focus the ECA's products on achieving that goal. From our perspective, that means producing a balanced portfolio of reports and opinions based on our audits which best address the needs of our stakeholders, in particular this parliament and the citizens you represent.

EU citizens have a right to know: what their money was spent on; whether it was used as intended; and whether it was used wisely.

That requires effective management and control arrangements in the EU capable ensuring EU accounts are reliable, its financial rules are respected, and results are achieved as efficiently as possible.

As regards the EU accounts, the Court has found them to be reliable for a number of years now. The Court's DAS work contributed to this outcome. We advocated introducing a modern accounting framework based on accruals. We then audited its implementation, making recommendations on how to improve the accounting systems.

As regards regularity, the picture is mixed. Despite significant improvements in internal controls in recent years, the Court has continued to find a material level of irregular payments. In 2011, the Court estimated the error rate to be 3.9%.

As regards the results achieved with the EU budget, it is impossible to provide and overall picture. The first two editions of the evaluation report have demonstrated that the building blocks are not yet in place for it to be an effective tool for public scrutiny.

- check against delivery -

Our performance audits help explain why. Many spending programmes and schemes still lack clear objectives and targets and have weak monitoring and evaluation arrangements.

The current state of EU financial management and control is largely explained by the pattern of developments that have occurred since the Commission launched its administrative reforms.

The Commission began by reforming its own internal management and control arrangements, including introducing an accruals-based accounting system.

It then turned its attention to developing and implementing an “integrated internal control framework”. Again the Court’s DAS and performance audit work helped us to contribute to the development and implementation phases.

Our audit experience was the basis of our opinion on “the single audit model” in which we set out our ideas on what such an internal control framework should look like. And we have audited many aspects of its operation in recent years.

Up until now, the Commission’s focus has primarily been on controlling the regularity of payments. Its stated aim has been to reduce the level of irregular payments made from the EU budget to below 2%, the materiality level used by the Court in its DAS.

The Court’s estimate of the overall error rate shows that it has fallen since 2006. But as you know, the Court warned that at a certain point, the marginal cost of increased controls begins to outweigh the benefit of reducing the error rate.

Therefore, we have also encouraged EU policy makers to re-consider the design of certain spending programmes and schemes.

It is from this perspective that the Court welcomed the spending review and its conclusion that the EU budget needed to be more “focused on results”.

- check against delivery -

In its contributions to that review and the preparations for the next financial framework, the Court stressed that a new “focus on results” should not be allowed to undermine the regularity of EU spending.

That is why - in early 2010 - the Court issued an opinion calling on the Commission to prioritise improving the quality of spending over the next financial framework period.

In the Court’s view, good quality expenditure respects the rules and achieves results. Compliance and performance are two sides of the same coin.

That has important implications for internal control, external audit and public oversight. In particular, the “focus-on-results” needs to be reflected in:

- management roles and responsibilities,
- the objectives and targets to be achieved,
- the payment conditions for receiving funds, and
- the requirements for recording, checking and reporting on results.

That would represent a major change of mind-set for public policy-makers and financial managers.

The new programming period provides an important opportunity to make progress in improving accountability for results.

Indeed, the proposals for programmes and schemes after 2013 contain a number of elements designed to bring more focus on results.

We have provided opinions on the main proposals.

As you know, the Court’s view is that a number of opportunities have already been missed at the highest level of legislation to further clarify objectives, simplify programmes and schemes, link payments more closely to results, enhance

- check against delivery -

monitoring and evaluation arrangements, and make internal control systems more output oriented.

Nevertheless, many opportunities for positive change remain at lower levels of legislation and when programmes and schemes are implemented.

Under the new financial framework, the funding provided from the EU budget will still be largely grant based. In the Court's view, a key way to improve EU spending would be to link the eligibility criteria for receiving grants more closely to outputs – payment by results.

If that were the case, the distinction between compliance and performance would be even less pronounced than it is now.

Chairman, honourable members,

The Court considers that financial, compliance and performance audit are all indispensable tools. They assist those responsible for political oversight of the EU's finance to hold to account those responsible for their management.

For the Court, that means we need to work with this Parliament. We need to carry out audits and produce reports that assist the Parliament to meet its responsibilities. We hope that Parliament, for its part, will make optimal use of the full range of the Court's products.

There will be major audit and accountability challenges ahead, for example the introduction of new financial instruments.

We will endeavour to support this parliament by providing position papers, landscape reviews and opinions which analyse the implications of such developments for financial management, audit and accountability.

However, we do not audit in a vacuum. What we will be able to audit in the future, and how, will depend on how the internal control framework develops.

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It is clear that the pyramid of assurance on the EU budget still needs to be completed – it must be built from the bottom up.

If the Commission was in a position to provide sufficient and appropriate information on the error rate, their figures could become a major input to the DAS.

Similarly, performance targets need to be in place as a management tool before they can serve as audit criteria. With such building blocks in place the Commission's evaluation report under article 318 could serve as a starting point for public scrutiny of performance. Indeed, that evaluation report could become auditable.

We recognise that an integrated internal control framework also provides opportunities for the ECA to cooperate with national SAIs. This is an avenue we are actively exploring with our national counterparts in the Contact Committee.

With them, we also recognise that cooperation between SAIs will be crucial in order to deal with the challenges of developments in European governance.

The Single Supervisory Mechanism and the financial and economic surveillance in the European semester are two examples of cases where cooperation is required between SAIs in order to give parliaments and citizens a full audit picture of performance.

Chairman, honourable members

Better accountability for the use of EU finances is needed in order to strengthen democratic legitimacy and foster citizens' trust in the EU. The Court will continue to use its audit work as best it can to assist this Parliament and the other EU institutions to achieve that goal.

## 4. The use of result and impact indicators from the perspective of the European Commission

By Algirdas Šemeta, Commissioner  
responsible for Taxation, Customs, Statistics,  
Audit and Anti-Fraud in the European  
Commission



Hearing on "European Court of Auditors: from legality and regularity audits to evaluation of efficiency and effectiveness of EU projects and programmes. The special reports as a useful instrument for the legislator"- 25 Sept. 2013  
Committee on Budgetary Control





# **CONT meeting**

**Brussels**

**25 September 2013**

**15.00 – 18.30**

*Subject of the session:*

*CONT hearing: “European Court of Auditors: from legality and regularity audits to evaluation of efficiency and effectiveness of EU projects and programmes. The special reports as a useful instrument for the legislator”*

**– Check against delivery –**

## **SPEECH**

### **“The use of result and impact indicators from the perspective of the European Commission”**

Dear Chairman,  
Dear Rapporteur,  
Honourable Members of the Committee and of the Court of Auditors,  
Ladies and Gentlemen,

Since a couple of years, performance auditing has received increased attention from the Court of Auditors. This is welcomed by the Commission as the results of these audits give us valuable information on the performance of our programmes and other activities as well as suggestions how to improve.

I therefore very much appreciate that this topic is discussed in its various aspects in today's hearing.

### **Performance audit is an integral part of audit work at EU level**

The reason for the importance of performance audit is evident: legal frameworks of spending programmes are becoming more and more result-oriented instead of being purely focused on inputs and outputs.

Expected results of the implementation of spending programmes and instruments should be clearly identifiable and should refer to the achievement of policy objectives. In addition, spending programmes should generate measurable impacts and should be designed so as to allow for the periodic measurement of those impacts.

**MFF 2014-2020 follows a results and performance approach through indicators**

The Commission proposals for the next programming period do contain clear examples of this results and performance approach.

The financial and economic crisis demands on all of us to adopt an approach which takes into account the imperative of consolidation of public finances.

In these difficult economic circumstances, the MFF 2014-2020 provides a stable investment horizon in order to make available funding for investment in growth and employment. However, the condition for successful spending programmes is a focus on the right priorities and on maximum results.

The Commission has tabled a number of concrete suggestions and guidelines to ensure that the quality of spending will be actually improved. Let me just mention two examples:

Firstly, the scope and objectives of the programmes will be closely aligned with the Europe 2020 strategy for growth and jobs. As I have already mentioned, we need to align our spending priorities with our overall political objectives. The greening of agricultural spending is one example; thematic concentration in the structural funds is another.

Secondly, structural funding should align with macroeconomic policy and the priorities flowing from it. It is designed to ensure that precious capital will actually help addressing the very deficiencies identified in the country specific recommendations presented by the Commission and approved by the Council.

### **New performance framework**

The Commission has designed its proposals for the new programmes under the MFF with a view to delivering a stronger performance framework. It is therefore more focused on efficiency and effectiveness.

To this end, the new performance framework includes three important elements:

Firstly, it includes a set of main objectives to be achieved, with appropriate links to the EU-2020 objectives.

Secondly, it includes indicators with focus on EU added-value, efficiency, effectiveness and overall impacts on the economy and society.

Thirdly, the new performance framework contains strong arrangements for monitoring and evaluation to ensure the availability of the necessary data. This will allow timely reporting on results and performance and allow the auditors to better identify suitable audit criteria against which the performance of these programmes can be measured.

Let's take the Structural and Investments Funds for the period 2014-2020 as an example. What can we observe?

First, there is an alignment between the spending programmes and the policy priorities of the EU: Structural Funds should be used "to provide support to deliver the Union strategy for smart, sustainable and inclusive growth".

Second, a new common strategic framework covering five structural funds will be established to facilitate the actual programming and ensure consistency between the different objectives.

Third, a comprehensive performance framework is put in place in which for each priority, indicators and corresponding targets expressed in qualitative and quantitative terms are set out. They would include financial indicators relating to allocated expenditure, output indicators and result indicators.

And finally, that a system of monitoring and evaluation based on these objectives and indicators is set up, with detailed ex-ante evaluations for each programme, ongoing evaluation during the programming period and ex-post evaluations examining the effectiveness and efficiency of the funds.

A similar approach has been followed in the context of the reform of the Common Agriculture Policy.

### **Art 318 Evaluation Report will be further improved**

I would now like to come to another related aspect of the performance framework: the reporting.

The Art 318 Evaluation Report has been established by the Lisbon Treaty. Since the financial year 2010, the Commission provides in this report on yearly basis detailed performance information.

In close cooperation with the Budgetary Control Committee and the European Court of Auditors, the Commission is continuously working to further improve this Report. The new performance framework will provide the tools to better address the needs for information requested by the discharge authority.

**An action plan for the Art 318 report has been set up**

The provisional planning for the further reporting on performance is set out in an action plan which was included in the most recent Evaluation Report on the year 2012.

It foresees that the performance information from the Commission's Strategic Planning and Programming Cycle will be better integrated in the Evaluation Report.

As it stands, the indicators, milestones and targets included in the funding programmes, will be set out in the Commission's Management plans and will be then included and reported in detail in the Annual Activity Reports.

As a final step the overall performance will be assessed in the Evaluation Report. This reporting chain will ensure that relevant data on performance in all spending programmes will be presented in a consistent and comprehensive manner.

But more improvements are planned: The future Evaluation Report will for example present the complete framework for monitoring, evaluation and reporting until the end of the next MFF.

The framework will in particular consist of

- an overview of the key objectives of the programmes;
- the main indicators and monitoring arrangements; and
- the timing and content of evaluations.

In the context of the Smart Regulation agenda, the Commission will also issue new Evaluation guidelines to better align and to strengthen the Commission's evaluation policy under the new performance framework.

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Dear Chairman,  
Dear Rapporteur,  
Honourable Members of the Committee and of the Court of Auditors,  
Ladies and Gentlemen,

As you can see from the brief outline, the Commission has already launched specific initiatives to better measure performance and results of our programmes. Indicators have been defined for the current programmes and will be defined for the programmes and projects of the upcoming financing period.

We are prepared to implement the new performance and result orientated approach of our activities.

Thank you for your attention!