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Committee on Budgetary Control – 13 July 2010
Transparency in Structural Funds – recipients and beneficiaries

Transparency and Accountability

Contribution from the European Court of Auditors

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1. I would like to congratulate the Committee on Budgetary Control of the European Parliament for this interesting and important hearing on "Transparency in Structural Funds". I would also like express my gratitude for having been invited to speak here on behalf of the European Court of Auditors.

2. In its resolution of 19 February 2008 on transparency in financial matters, the European Parliament has already stressed that transparency contributes to strengthening the principles of democracy and respect for fundamental rights. This position has recently been confirmed by the Parliament in its resolution of 15 June 2010 on transparency in regional policy.

3. In the field of EU Structural Funds interventions, transparency from our view means in particular ensuring:

   a) a clear understanding among potential beneficiaries of the way EU support is granted, thus ensuring equal treatment and equal opportunities to access this support;

   b) the provision to EU citizens and stakeholders of relevant and reliable information on how financial resources have been spent;
c) the availability of relevant and reliable information on the achievements of Structural Funds interventions, enabling EU stakeholders to assess the effectiveness, efficiency and economy of such interventions;

d) the accountability of those who have been vested with the responsibility to manage public money.

4. Making lists of beneficiaries of EU support available corresponds to these concerns. Finding the right balance between needs for information, respect for privacy and business confidentiality is however a political issue. Being an auditor, I am not going to tell you what type of information should be made available to EU citizens. I only take note of the Parliament’s resolution from 15 June 2010. I am rather going to present weaknesses observed by the European Court of Auditors in relation to transparency and the recommendations made by the Court. More precisely, I am going to focus on availability, relevance and reliability of information, which are three main aspects which have to be addressed in order to achieve real transparency.

5. Structural Funds activities are complex because of the high number of co-financed projects (hundreds of thousands) and intermediaries managing the interventions and because of the great diversity in the nature of these projects: motorways, airports, railway sections, waste water treatment plants, venture capital funds, tourism infrastructure, vocational training actions and many others. The range of beneficiaries is also wide: a great deal is public institutions, such as national or regional authorities, municipalities, universities etc.; others are private: SMEs, associations providing training, private persons, etc. Lack of relevant and reliable information, both on costs and on outcomes, is a regular observation made by the Court in its Annual and Special Reports.

6. Regarding the legality and regularity of Structural Funds activities, which is an aspect of the reliability of information provided, the Court has noted in its Annual Reports that errors most commonly result from:

a) ineligible claims by beneficiaries; examples are costs not related to the co-financed project and costs not incurred during the related programming period;

b) over-declaration of eligible costs; in most cases, these errors relate to overstated staff and overhead costs, incomes not deducted from the costs incurred;
c) non-compliance with payment conditions, particularly in relation to public procurement rules. Public procurement is typically a field where transparency is very important and has to be improved; the related procedures and their implementation have to ensure equal treatment of all bidders and the outcome of the process must lead to the selection of the most efficient solution.

7. As deficiencies in control systems at the final beneficiary level is a significant source of such errors, the Court has recommended to the Commission and the responsible authorities in the Member States:

a) an early cooperation between Managing Authorities and project promoters in order for the latter to familiarise themselves with their legal compliance risks and error risks exposure;

b) the selection and training of staff in order to be capable of preventing and detecting errors in project cost declarations and in beneficiaries’ procedures; the use of checklists covering all risks aspects is crucial; and

c) the Commission’s effective supervision of primary controls in the Member States, on the basis of a risk analysis of control systems of the various Managing Authorities.

8. The Court has, however, stressed that there is a limit to the improvements that can be made to supervision and control without significantly reforming the underlying rules and regulations. Indeed, as the quantity of controls increases and errors become less frequent, the control costs may begin to outweigh the benefits of further reductions in errors. On the other hand, there might still be room to improve the quality and effectiveness of the existing amount of controls. There is therefore a need for transparency of control and control costs information in order to assess where the appropriate balance may lie. Where no such balance can be found, it is appropriate either to reform or reconsider the programmes and schemes in question.

9. A second significant source of errors is indeed the complexity of eligibility rules and other conditions which beneficiaries are subject to.

10. Simplification is a way to encourage transparency and it should remain a priority. Rules and regulations that are clear to interpret and simple to apply decrease risk of error and also
corresponding control costs. However, care is needed to ensure that due attention is also paid to the likely effects on the quality of spending.

11. Finally, the Court has also stressed that the following elements directly linked to transparency had to be improved:

a) the assessments made in Annual Activity Reports and declarations of Directors General of the Commission of the reliability of internal controls in high-risk areas; and

b) the quality of data that Member States are required to provide to the Commission concerning the financial correction and recovery mechanisms.

12. The second main area scrutinised by the Court is the effectiveness, efficiency and economy of EU interventions.

13. Regarding Major Projects, as noted by the Court in its Special Report 1/2008, there is a need for a more effective and consistent preliminary examination of project applications at Commission level. In particular, the process resulted in fixing too high a rate of Community contribution in a number of cases. The Court recommended to continue efforts to define rules for adjusting the rate of Community participation in a consistent manner, which would increase the transparency of EU spending. Efforts have been made by the Commission for the 2007-2013 programming period, the result of which have to be examined by the Court in future audits.

14. Weaknesses very often concern the lack of transparency about performance achieved, which undermines accountability. The Court has observed many cases where objectives and their related indicators are not defined, which prevents any attempts to measure project performance. Also, when objectives and indicators have been set, there remains many cases where information concerning outputs, results and impact is absent, insufficient or unreliable. This has in particular been observed in Special Report 10/2006 on ex post evaluation, Special Report 1/2007 on the mid-term processes and, more recently, in Special Report 1/2008 on Major Projects and Special Report 17/2009 on Vocational training actions for women.

15. These deficiencies impair the possibility to carry out value for money assessments and audits. In its performance audits on Structural Funds, the Court itself is often obliged to collect information on outcomes at beneficiary level. The lack of information implies that it is
not possible to get reliable aggregate information on what has been achieved with the Structural Funds financial support.

16. The Court has recommended that SMART\(^1\) objectives and relevant performance indicators be defined and reliable data be collected and made available regularly.

17. More generally, the Court has also recommended to the Commission to consider whether there is scope for focussing more on results than inputs. This would put more emphasis on the improvement in the EU citizen’s wellbeing and would increase transparency.

18. Mister President, distinguished Members of the Committee on Budgetary Control, Ladies and Gentlemen, yes, progress has to be made towards more transparency in the administration of Structural Funds to the benefit of EU citizens and stakeholders. Thereby increased transparency will reinforce the accountability of those who are responsible for the management of EU money. Finally, more transparent information about the effectiveness, efficiency and economy of Structural Funds spending will also result in a better definition of the required nature and focus of future interventions and the required enhancements in their delivery mechanisms.

19. Thank you for your attention.

\(^{1}\) SMART: Specific, Measurable, Achievable, Relevant and Timely.