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## **EUROPEAN COURT OF AUDITORS' EXPERIENCE IN THE FIELD OF AUDIT OF THE EUROPEAN UNION SOCIAL SPENDING**

### **Social policy of the European Union**

The principle of social solidarity is one of the European Union foundations. Meanwhile the legal grounds for EU operations are EU Association Agreements. One of major articles of the Association Agreements reads as follows:

“The Community and the Member States, having in mind fundamental social rights such as those set out in the European Social Charter signed at Turin on 18 October 1961 and in the 1989 Community Charter of the Fundamental Social Rights of Workers, shall have as their objectives the promotion of employment, improved living and working conditions, so as to make possible their harmonisation while the improvement is being maintained, proper social protection, dialogue between management and labour, the development of human resources with a view to lasting high employment and the combating of exclusion”.

It is hard to overestimate the general principles and strategic objectives set forth in that article. First and foremost what strikes is the combination of two categories of general objectives: protection and improvement of social conditions of the EU citizens in parallel to maintaining the EU capacity to make progress and for economic development. This is a clear dilemma and an attempt to address this dilemma was made in the Lisbon Strategy adopted in 2000.

The Lisbon Strategy adopted in March 2000 is currently a major socio-economic programme of the European Union providing for the following, major directions of activities:

- preparing the transition to a knowledge-based economy and society by better policies for the information society and R&D as well as training of the appropriate qualifications and skills;
- liberalisation and integration of those markets and sectors that in fact were not covered by an internal market: telecommunications, power sector, transport, postal as well as financial services and the overall service sector;
- development of entrepreneurship: deregulation and better support by the administration, easier access to capital and technologies, limitation of public aid distorting competition, creation of level playing field for competition;

- increase of employment and change of social model: enhancement of professional activity, making labour market more flexible, improvement of education, modernisation of social security system, limitation of poverty and social exclusion;
- taking care for sustainable development foundations and environment: control of climatic changes, preservation of natural resources.

The European Union pursues its strategic objectives through defining priorities and dedicating them financial means in Long-term Financial Perspectives. The Long-Term Financial Perspective is a joint position of the European Parliament, EU Council and European Commission on major expenditure categories that have to be observed by the EU institutions involved in the annual budgeting exercise.

Member States are responsible for the organisation and financing of social security systems. However, the European Union plays an essential role here. First and foremost EU legislation plays a key role in the co-ordination of the social security systems of individual Member States. Secondly with part financing from EU funds a number of detailed social schemes are executed in the Member States. They are mainly co-financed from the European Social Fund, which is one of the EU structural funds. The 2007 – 2023 Financial Perspectives provide for the social spending in the Member States in the range of EUR 75 billion (approximately 10% of the budget annually) on the projects partially financed by the European Social Fund. However, it should be emphasized that this is not the total amount of funds budgeted by the EU for social protection of the EU citizens. A lot of funds for the implementation of objectives I mentioned before is expensed under other EU funds.

The Fund's mission is to promote economic and social cohesion, to level off differences in wealth and quality of life in all EU Member States and regions and to support social integration (to counteract social and economic exclusion etc.). This is achieved through Operational Programmes agreed on by the Member States with the European Commission. For instance in the 2007 – 2023 period Poland envisages the implementation of 18 programmes under two Operational Programmes of the European Social Fund.

For the 2007-2013 period five financial priorities for the ESF have been established:

1. Adaptability of employees and enterprises and a healthy workforce;
2. Enhancement of access to employment and wider participation in labour market.
3. Improvement of training and development of skills of individuals and improvement of training and educational systems.
4. Promotion of partnership for reforms in the field of employment and integration on the labour market amongst such entities as employers, trade unions and non-governmental organisations.
5. Support of social integration for disadvantaged persons and fighting of discrimination in the labour market.

## **The European Court of Auditors (ECA)**

ECA is an external, independent auditor of the European Union. Under the Treaties it audits EU finances, checking the legality and correctness of income and expenditures and making sure that the finances have been properly managed. The European Court of Auditors draws up an annual report after closing of each budget year. At any time it may also present its comments on individual issues. In other words – the ECA, in addition to financial audits, may also carry out performance audits.

The major responsibility of the ECA is to submit the Annual Audit Report on the execution of the European Commission budget to the European Parliament and EU Council. On the top of that the ECA publishes several special reports per year, which include the findings of the audit of task performance in individual areas. It should be known that though the ECA has access to all information about execution of the EU budget including Member States and final beneficiaries of EU funds, it audits only and exclusively the European Commission. The Member States are not audited by the ECA, though it is not possible to audit the European Commission without auditing the Member States.

The work of the European Court of Auditors is planned, and the annual action plans result from a long-term Audit Strategy, adopted by virtue of a resolution by the Court. In the Strategy adopted for the 2009 – 2012 period the social issues were covered by two items:

1. Human capital – with an outlined area of the audit of the Lisbon Strategy to this extent.
2. Society and well-being - with an outlined audit area, improvement of life quality covering such areas as social education, public health, child care, quality of foodstuffs.

In the above areas ECA's Audit Strategy has defined the following, major risks of irregularities.

With reference to planning:

- actual usefulness of the programmes,
- unclear programme objectives, the absence of key performance indicators,
- financing plan inconsistent with priorities.

With reference to programme execution:

- insufficient financial efficiency,
- insufficient, inappropriate supervision,
- poor monitoring and implementation evaluation systems.

The Strategy also defines major risks of achieving the intended deliverables, which include:

- frequently the programmes are not oriented at the achievement of tangible results;
- poor sustainability and dissemination of the programme deliverables.

The above provisions of the Audit Strategy are considered when specific audit tasks are established.

### **ESF in the EU budget audit for 2007**

The European Social Funds (ESF) is a part of structural funds and is audited on an annual basis by ECA during budget execution audit. During the last such audit – for the year 2007 – the ECA audited 56 projects financed by ESF. The most serious errors were concerned with incorrect cost reimbursement, which was true in 46% of audited projects. The most frequent errors included:

- no evidence indicating that total costs or wage costs were indeed connected with the project.
- overestimating wage costs and/or total costs,
- posting of non-eligible costs.

For instance: in one of the projects the wage costs were overestimated to the extent that the costs referring to a certain number of employees were posted in full into project costs despite the fact that these employees performed also other non-project related duties.

### **Audit of combating early school leaving.**

In 2006 the ECA published a Special Report with the findings of audit on ESF use for combating early school leaving in the Member States. The audit objective was to provide answers to the following questions:

- had the European Commission properly managed ESF spending in the audited area?
- had the Member States governments preceded the granting of funding with appropriate analysis of expected benefits?
- had the beneficiaries been properly selected?
- had the project execution led to any tangible results in combating early school leaving?
- had the Member States applied appropriate monitoring and evaluation of project execution?

In total 36 implementing bodies and 50 projects were audited in 5 Member States. Major audit findings include:

- a) the measures partially financed by ESF aimed at combating Early School Leaving were taken without prior proper diagnosis of existing situation and without setting expected deliverables;
- b) the application of various definitions of Early School Leaving by individual Member States did not facilitate the geographical orientation of the aid, nor the measurement of the impact of initiatives taken.

c) inability of some Member States to apply the definition of Early School Leaving agreed on at the Lisbon Summit in 2000 and to present statistical data showing the size of the Early School Leaving phenomenon hampered the Community efforts aimed at defining the issue and addressing it effectively;

d) the Member States found it difficult to define the population covered by their activities. Nevertheless two Member States succeeded in addressing the issue through establishing national data bases for monitoring of the Early School Leaving phenomenon;

e) generally speaking, data about the outcome or impact of co-funded programmes aimed at control of the Early School Leaving phenomenon was scarce, though in two Member States separate assessment of measures combating Early School Leaving was made.

In concluding remarks the ECA recommended the European Commission to:

a) if necessary to provide Member States with guidelines to ensure efficiency, effectiveness and cost-effectiveness of Community financing;

b) make sure whether management systems in the Member States meet the principles of cost-effectiveness, efficiency and effectiveness in compliance with the EU legislation.

The ECA also recommended that the Member States' governments acting jointly with the European Commission should:

a) correctly define and determined the scale of Early School Leaving phenomenon;

b) establish or strengthen the existing procedures under co-funded measures, used to identify and reach people where the risk of school leaving was the highest;

c) encourage information exchange (including information about good practices), to the extent permitted by law, amongst all local and national organisations responsible for combating Early School Leaving;

d) promote actively innovative use of ESF funding for combating Early School Leaving.

### **Audits underway.**

At present two ECA special reports on the implementation of social policy by the European Commission are nearing completion First of them is on the audit of ESF funds disbursement on part financing of vocational training for women. During the audit the ECA focused on two questions:

- have the measures concerning vocational training for women been selected to match the requirements of the local labour market?
- has the monitoring system for results generated by the measured co-financed from ESF been working correctly?

The second audit covered the EU Public Health Programme. During that programme in the 2002 – 2007 period 232 million euros were spent for part financing of 352 projects. The audit

focused on health determinants of the Public Health Programme, which had the highest financial weight and consequently 36 out of 149 projects were audited in 8 EU Member States. The major question of the audit was whether in the design phase appropriate conditions were created so that EU funds, supplementing national funding from EU Member States, were used effectively to improve health condition of the EU citizens. In particular the report answers the following questions:

- has the Public Health Programme secured appropriate framework for effective implementation and monitoring of health promotional campaign co-financed from ESF funds?
- has the European Commission ensured health determinants presence in the implementation phase of the Public Health Programme and in the project selection phase and whether it adopted solutions conducive to sustainability of results,
- have the projects been managed properly.

The detailed findings of the audits will be published after their final approval by the European Court of Auditors, which will be in the nearest future.

### **EU Solidarity Fund**

Taking about social expenditures we usually have preliminary budgeted expenditures for assignments related to the operations of a certain social welfare system oriented at poorest families (persons), threatened with social or economic exclusion etc. Usually they are expenditures in the preliminary central or local budgets and implemented with high regularity and predictability.

However, there is a very specific area, usually skipped in the deliberations about systemic social solutions. This areas is social assistance provided right after natural disasters or catastrophes caused by human activities. It goes without saying that victims of such disasters should get necessary social assistance as quickly as possible. Unfortunately, possibility to forecast such events and their impact is very limited. After a series of major floods in Europe in 2002 the EU set up a special European Solidarity Fund, managed by the European Commission. The Fund's objective is to provide assistance to the countries affected by major natural disasters of technical failures. Major disasters include those where total losses exceed 3 billion euros or 0.6% of GDP.

The European Court of Auditors audited the operations of the Fund. Generally findings are positive for the European Commission. Small shortcomings in the process of acceptance of aid claims and small delays in response to things that happened. Based on findings the appropriate recommendations for the European Commission were drafted including recommendation on establishing permanent, direct contacts amongst the Fund and competent institutions in the Member States. Since the beginning of Fund operations 1.8 billion euro was spent from its funds and the total 33 out of 65 of submitted claims were

satisfied. In the audited period the most frequent natural disasters in Europe were floods and forest fires and additionally hurricanes, earthquakes, oil leakage, volcano eruption, explosion. For various reasons 32 claims were rejected. However, these 32 serious disasters did happen and caused tragedy for many persons. All this provokes reflections on the role of auditors helping public authorities in proper preparation to face the effects of similar disasters and auditing the compliance of activities taken by the public authorities once disasters have occurred. Today's conference is a special place to raise this topic. This is due to the fact that the first and natural public authority that is exposed to the effects of natural calamities or other disasters, with citizens' tragedies is local government. Therefore the role of Regional Chambers of Audit and national supreme audit bodies in the conduct of ex-post and ex-ante audit of local governments cannot be overestimated.

### **Closing remarks**

The audit of public authority activities in the broadly understood social area requires specialist preparation by the external auditors. First and foremost the audit institutions should position unambiguously this type of audit in their long-term audit strategies, defining potentials risks and their weights.

It is a well known fact that ex-ante audit is less spectacular, but much more effective than ex-post audit. It allows to identify the weaknesses of the systems in the phase of their design or implementation, thus preventing major, potential implementation problems. In the event of social welfare system audit it has a special significance.

Talking about social assistance audit we may not forget about the audit of preparedness of public administration to provide such assistance in emergencies, in case of natural disasters and technical failures.

When analysing ECA reports that are after all very good, one may hardly withhold a reflection that the huge improvement potential of European audit measures is in the field of collaboration with the national audit institutions. What is meant here is not only the exchange of audit methodology experience, but also a possibility of taking joint audit efforts on an international arena e.g. in case of transboundary natural disasters.