Foreword

> As economic and social development have progressed, financial control and political scrutiny of the budget have become essential components of the democratic legitimisation of public expenditure.
>
> Supreme Audit Institutions should contribute decisively to the quality and effectiveness of this process. Audit reports identify shortcomings and recommend measures to improve the management. They thereby help the executive to make the best possible use of public funds; in other words to ensure that the political objectives of the expenditure are achieved at minimum cost and that the accounts drawn up are transparent. Lastly, the publication of audit findings enables citizens to become familiar with and to legitimise the actions of their government and representatives.
>
> Public expenditure in a democratic society should rely on an effective financial management and control system.

These types of statements could be quoted very easily from any Public Finances student's manual or from any specialized publication in government audit. They are taken as a kind of *axiom*, easily assumed and undisputed in any analysis of public finances systems. But are these assertions also valid in the European Union context, or do they remain commonplaces, closer to our wishes than to political reality?

Today, we could already speak of the consolidation of a 'European public sector' in which European, national, regional and local funds jointly finance all kinds of projects to improve people's quality of life. The EU budget has dramatically increased from the 20 billion euro in the 1970s to more than 100 billion euro in 2004. Common rules govern the working of public administrations and European companies in increasingly varied domains such as agriculture, regional development, finance, the environment and transport. Our common currency, the euro, is part of the everyday life of millions of people.

Thus the European Union involves social, economic and fiscal policy integration, including a strong common budgetary instrument. However, this trend has not been followed by the development of an adequate financial management and control system able to provide the assurance that European public funds are soundly expended.

Over the last few years, with the encouragement of the European

Parliament and the Commission, this topic has been brought to the political agenda of the Union. The Commission has undertaken an in-depth administrative reform: a new financial regulation was adopted in 2002; internal control has been decentralized and assigned to line managers (Directors-General); internal control standards have been introduced and a strong internal audit function has been put in place.

These measures have certainly had a positive effect in terms of improving the quality of Commission management; nevertheless, they have a very limited impact on the areas of the budget directly administered and controlled by national administrations. These areas represent more than 80 per cent of expenditure and include the agriculture subsidies and the structural funds which are transferred into national budgets and pulled together with national resources.

In this way, common financial resources and rules serve to integrate the European, national, regional and local public sectors. But what about the control systems? Have they been integrated to the same degree?

Control systems involve several institutions and bodies: the European Court of Auditors, the Commission's Internal Audit Service, the National Supreme Audit Institutions, Regional Audit Offices, national internal auditors, inspectorate bodies, certifying accounts and paying agencies, and so on. Are all these bodies working in an efficient and cost-effective way? I think they are not. The audit field is not properly covered, there is too much overlapping and duplication; moreover, they are not able to rely sufficiently on the work carried out by the other bodies.

In the case of the Supreme Audit Institutions (SAIs), and despite the evident interest of all concerned and the resources that have been provided by them, we should not be content with the results of the existing collaboration. Coordinating structures, such as the Contact Committee of Presidents and the liaison officers' meetings, have been created; procedures for mutual assistance and the exchange of information have also been established. But the decisive step of establishing effective, operational coordination still has to be taken (thereby avoiding unnecessary repetition or shortcomings in our audit work). Our work programmes should be coordinated, and we should be able swiftly to exchange our audit findings and to use this information in our own work.

The enlargement of the Union will no doubt bring other difficulties, such as more languages, a larger population and territory, weak financial control systems and young institutions which need our support to improve their administrative practices. Incoming countries will be important beneficiaries of the structural funds and of the common agricultural policy subsidies. There is no doubt that this trend will be justified, *vis à vis* European public opinion, but only if the sound utilization of these funds is rigorously accounted for. The success of the enlargement process will partly depend on the vigilance of the control and on the relevance of the corrective measures that will be envisaged and proposed.

However, we must not be pessimistic, rather the opposite. The history of the European project has shown that with political will and the resolve born of sound ideas, we have been able to solve greater organizational problems. As already mentioned, the main problem concerns the areas of shared management, where national authorities administer and control European Union budget funds. Shared management should also involve shared control; cooperation and the application of the subsidiarity principle are, in my view, the keys elements in this process.

We have now reached a critical stage in the construction of the European public sector. It is necessary to redefine the responsibilities and prerogatives of Member States and European Institutions, and it is essential to determine the resources and powers that are necessary for the control of the Community funds. This is not an easy task. It calls for increased collaboration between all the bodies involved in this matter. Effective cooperation between SAIs is one of the starting points for any rational system of external control of Europe's finances. Cooperation must be founded on respect for the independence and operating mandate of each SAI and for their different organizational and operational approaches. At the same time, cooperation must be strengthened through each institution's commitment to developing concrete actions aimed at improving the system of control of Europe's finances. Above all, however, there is a need for willingness and openness so that agreements can be reached which, while perhaps not always entirely satisfactory for all sides, are globally beneficial.

This book presents a very thorough analysis of the public expenditure control in Europe and the coordination strategies available: strategies that should aim at strengthening collaboration between the different levels of financial control – internal and external; European Union, national and regional. I am convinced that by respecting the independence of each control body and its own style of organization and work, we can create a system for the control of European funds which is more effective and which guarantees greater democratic legitimization of European public expenditure. The creation of such a system is without doubt a sound idea which will help to improve the lives of our fellow citizens.

Juan Manuel Fabra Vallés
President of European Court of Auditors