

**Reforming the Budget, Changing Europe
A Public Consultation Paper in view of the
2008/2009 Budget Review**

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Type of organisation:	Non-governmental organisation
Level of representation:	European / Global
Stated objectives of the organisation:	Transparency International is the global civil society organisation leading the fight against corruption
Membership:	Over 100 chapters worldwide (in almost ever EU member state and EU accession candidate and potential candidate country)

Ad Question 8: Could the transparency and accountability of the budget be further enhanced?

Ensuring transparency and accountability in relation to the EU Budget is complicated by three factors: firstly, great organisational complexity; secondly, the mostly high-risk spending; and thirdly, historically grown management and control arrangements.

Transparency International considers that in the context of a global “non-taboo” review, the way forward is to address these factors as directly as possible.

The Commission should therefore explore the following avenues:

1. Reducing complexity

Undeniably, the complexity is to a large extent an intrinsic feature of the EU budget, given the multiplicity of spending schemes, managing entities, beneficiaries, and control and audit bodies. Even so, there is a certain room for manoeuvre:

Legislators should pay more attention to facilitating transparent and accountable budget implementation by formulating clear and simple rules for its execution. It often happens that modifications of Commission proposals, introduced to satisfy various national interests, result in rules that are complex and difficult to implement and/or control. The Commission should be more outspoken when it is of the view that changes to proposed rules requested in the

course of the legislative procedure would unduly complicate or impair its task. As a start and in the context of the current review, the Commission should propose changes to existing legislation where it considers that this is the case.

The Commission should also examine to what extent complexity can be reduced through the following measures: reducing the number of management and control schemes by developing standard formats for all types of operations; reducing the complexity of schemes, e.g. through greater recourse to lump sum payments. Finally, the Commission should initiate a wide debate on how to reduce the complexity of current control and audit arrangements (see below).

2. Addressing inherent risks

Similarly, the high-risk nature of most EU spending is inherent in operations, linked to the fact that it takes the form of subsidies.

The reports of the European Court of Auditors provide a representative picture of the irregularities that typically affect the EU Budget. Although the overwhelming majority of reported irregularities do not constitute fraud in the strictest sense, the results point to a persisting tendency to overstate claims.

To cope with these risks, agriculture expenditures benefit from a well-conceived management and control system, considered by Transparency International as a model that should continue to inspire the system of the Structural Funds. In particular the integrated administration and control system (IACS) of the EU comprises effective penalties designed to discourage irregularities and fraud. In the view of Transparency International, penalties of this type could be built into management and control systems when appropriate.

In the view of Transparency International, another effective way to address this tendency to over-claim, including fraud and corruption in the strict sense, is to pay even closer attention to explicit or implicit incentives built into the system.

The general rule should be that non-compliance is sanctioned at the level at which it occurred, that the risk of detection is sufficiently high and that the sanction is proportionate to the irregularity (reduction or suspension of payments; blacklisting and debarment from public contracts).

The impact on the EU budget of “carousel fraud” in the context of the “3rd resource” (VAT) would be eliminated if the formula for calculating the national contribution would exclude such losses or if the “3rd resource” was abolished altogether.

Transparency International welcomes the fact that the principle of systematic publication of recipients of EU funds is now accepted (as recommended). Indeed, such publication is an important feature of budget transparency.

A systematic publication of recipients will also discourage intentional irregularities, because of obvious reputational risks. Cases of established fraud should also be published, after the relevant judicial procedures have been closed.

The Commission should oversee this publication effort, in order to ensure that all information is presented in a standardised way (including recipient, amount and operation), is easily accessible and is understandable to the interested public. Attention should also be given to consolidate payments to a recipient received under various schemes or under different names.

A high probability of detection and prevention is best ensured by strengthening financial circuits upfront and by appropriate internal audit arrangements. In the context of cross-border fraud, Member States should be encouraged to step up co-operation between the competent national authorities, including through Eurojust.

Lastly, financial performance should be measured against agreed and realistic benchmarks, which indicate the risk considered tolerable in view of the specifics of a sector or an operation. These benchmarks could then serve as reference values (“materiality thresholds”) for both the audit and discharge authorities. The focus should be on irregularities which have a financial impact, and it should be made apparent at what level they had been discovered.

3. Overhauling management and control arrangements

The current management and control architecture is historically grown. As the EU budget has typically developed in quantum leaps, this architecture reflects the constraints of the moment as much as deliberate design. As a consequence, it is suboptimal on various accounts.

In the view of Transparency International, three issues in particular should be addressed:

Firstly and most importantly, there is a need to review an accountability issue for spending under shared management, which accounts for more than 80 % of total spending. Current EU legislation determines that the Commission is ultimately accountable for the execution of the EU budget but the EU Member States largely run 80% of the EU funds under shared management and the Council is part of the discharge authority. In this context, Transparency International suggests the obligations of the Commission and the Member States be better delineated.

One possible solution to this issue is for each Member State to take more responsibility for the funds spent on its territory. The practical instruments could be Disclosure Statements and Statements of Assurance, also including voluntary co-operation between the supreme national audit institutions. Rectifying the current distortion in the management and control architecture would be the single most important contribution to improving accountability for EU funds.

The fact that this requires a change to the Treaty should not deter the legislators from pursuing it further.

Secondly, there is a serious loss of control and audit resources as co-operation arrangements between the various actors continue to be insufficient. Even co-operation at peer level, e.g. between the European Court of Auditors and national supreme audit institutions, has only progressed slowly.

The result is a fragmented system with uneven coverage and a waste of resources.

To enhance accountability via a better and more rational control architecture, the Commission should support the debate on how to move towards a “single EU control and audit system”, i.e. a multi-layered system which includes the Commission, Member States, the European Court of Auditors and national supreme audit institutions.

Thirdly, national management and control authorities are often confronted with a certain conflict of interest, because detecting and reporting irregularities typically means losing EU funds and possibly also damaging the country’s reputation. This conflict could be mitigated by strengthening financial incentives (see above), and by making greater use of peer pressure, e.g. by also involving experts from other Member States for the performance of key controls.

About Transparency International

Transparency International is the global civil society organisation leading the fight against corruption. Through more than 90 chapters worldwide (i.e. in almost every EU member state and accession candidate and potential candidate country) and an international secretariat in Berlin, Germany, TI raises awareness of the damaging effects of corruption and works with partners in government, business and civil society to develop and implement effective measures to tackle it. One of Transparency International’s main areas of expertise and experience is the transparent public contracting and public finance management.

We look forward to continue discussing these issues with you. If you need further information, please contact:

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