

BIG TICKET AUDITING: A REVIEW OF THE STRUCTURES OF THE EUROPEAN COURT OF AUDITORS

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ABSTRACT

The audit report published by the European Court of Auditors (ECA) in November 2006 on the financial statements of the EU Commission has, for the twelfth successive year, failed to give a clean audit opinion. The ECA gave assurance for less than 10 per cent of the annual budget. The chief EU accountant, Marta Andreasen, who has blown the whistle on the EU accounting systems, has been suspended since mid-2002. Against the background of increasing standards in auditing and moves towards greater transparency in auditing in the private and public sectors, this paper describes a study undertaken to assess the structures of the ECA and to consider recommendations to enhance the audit function of the European Union (EU). The research concludes that the structure of the ECA is no longer appropriate in the current environment which requires professional assurance within a corporate governance model. This is especially so for a complex, multi-state organisation like the EU. The conclusion of the study, described in this paper, is that the ECA should adhere more closely to the fundamental principles of auditing in its structure. In particular, it is concluded that the structure of membership of the ECA should be professionalised; that five Auditors General should replace the current membership; that their appointment should be competency based rather than politically based; that the EU should move towards uniform and high quality standards of accounting and auditing (including value for money); that there should be greater collaboration among the public audit organs and between them and the audit research community; and that a system of peer review should be introduced.

BACKGROUND

Chatfield (1977, p. 111) reported that historians in every society have recorded the work of auditors and valued their activity. The word auditing derives from the Latin *audire* (to hear) and this refers to the early medieval tradition of hearing the account of the steward aurally (Mills, 1990). Cooper (1921), however, notes that the development of the profession as we now know it in the late nineteenth century was characterised more by insolvency work than by auditing. Kitchen (1982) observes that the first book on auditing was published as recently as 1881.

However, by the early twentieth century, auditing had become the most significant and lucrative part of the professional accountant's business (Brown, 1905).

The auditing profession has developed without a strong conceptual framework and accountants have largely dominated the societal role of "auditing" or hearing a steward's account of his stewardship of the property of others (Perks, 1993).

In very recent times, there has been considerable attention paid to that branch of auditing which relates to the private sector. This has been driven by current financial scandals such as Enron, WorldCom and Parmalat. This international attention has led to considerable tightening up of accounting practices and auditing procedures and protocols in the private sector, and much of the recent auditing literature has concerned itself with the intentions and impact of Sarbanes-Oxley and with moves to internationalise the regulation of auditing standards.

Transformations in the private sector and high profile collapses have led to enhanced auditing and financial assurance. Sarbanes-Oxley and the Combined Code placed a requirement on the auditors to assess and report on their review of the effectiveness of risk frameworks. In the governance literature there has been a shift of emphasis from the shareholder concept to the stakeholder concept (Solomon and Solomon, 2004; Keasey, Thompson and Wright, 2006) which places additional requirements for independence and competence on the external auditor.

The fundamental principles of auditing are summarised in the UK Companies Act, 1989, which sets out provisions

for the purposes of securing that only persons who are properly supervised and appropriately qualified are appointed company auditors, and that audits by persons so appointed are carried out properly and with integrity and with a proper degree of independence

Irish legislation requires the Minister to be satisfied as to:

... standards ... applied to members in the areas of ethics, codes of conduct and practice, independence, professional integrity, technical standards, disciplinary procedures [of a body to be recognised as approved for the purposes of defining auditors]. (Section 191, Companies Act, 1990)

In exploring the structure of the ECA, therefore, it can be assessed against the basic principles of auditing, which are widely accepted (see also Mautz and Sharaf, 1961; Flint, 1988) and which are stipulated in the International Auditing and Assurance Board's (IAASB) International Framework for Assurance as the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, professional behaviour and independence.

The public sector audit environment

The societal demand for progress in enhanced standards of auditing has also extended into the public sector (Power, 1999). There are some well developed top-level audit bodies in the EU which have very varied levels of auditing. Respondents to the research questions in this study indicated varying levels of experience and mandates in the different member states. The newer member states are at an earlier stage of development in establishing their supreme audit bodies.

As examples, in Ireland the office of the Comptroller and Auditor General has been a feature of the constitution since 1937 (Article 33). In the UK, there is the National Audit Office for central government and the Audit Commission for local government auditing. They all have mandates to audit using a risk based approach and assessing the risk associated with the auditee and with the value for money delivered by the auditee. There are some bodies, such as in Portugal, where the emphasis is still based on transactions testing, with no value for money (VFM) auditing. In Germany, the *Bundesrechnungshof* is the supreme audit body of state expenditure and other EU countries have Courts of Auditors with varying focuses.

In the public sector, changes in government approaches and priorities also bring concomitant changes to public accounting and audit practices. Three factors, in particular, can be cited as examples. The first is the move by governments internationally to introduce New Public Management (NPM) (Osborne and Gaebler, 1992), being largely the translation of private sector managerial ideas into the context of public administration. NPM borrows a cluster of ideas from the conceptual framework of private sector administrative practice (emphasising cost control, financial transparency, the autonomisation of organisational sub-units, the decentralisation of management authority, the creation of markets and quasi-market mechanisms, separating purchasing and providing functions and their linkage via contracts, and the enhancement of accountability to customers for the quality of service via the creation of performance indicators¹). Second is the increasing imposition of regulation on enterprises (both public and private) including the corporate governance codes and external codes such as the Combined Code and Sarbanes-Oxley. The third factor is the demand for quality assurance of government programmes.

All these changes bring with them a demand for the services of a professional auditor not just to perform the attest function and assurance of compliance with regulation and legislation, but also to perform what have become known as VFM audits. In Ireland, for example, the role of the Comptroller and Auditor General encompasses a VFM function requiring that the areas of concerns with economy, efficiency and effectiveness are dealt with as well as fiscal regularity. Enhanced auditing standards, increasing demand for transparency under the stakeholder concept, and the inclusion of VFM auditing all demonstrate the applicability of the fundamental structural principles delineated by legislation and the IAASB, and highlight very clearly the need, within the EU auditing structure, for auditing based on integrity, independence, objectivity, confidentiality, professional behaviour and, especially, professional competence.

The research which is reported in this paper concerns itself with structures of auditing in the public sector, in particular, in the EU, and tests those structures against the fundamental principles of auditing outlined above. The audit of the public sector within a single state is complex and has inbuilt tensions. Power (1999) refers to the essential tension between effectiveness and efficiency, depending on fundamentally different evaluative logics. In reviewing effectiveness, the VFM auditor encounters problems in maintaining the ethic of neutrality and runs the risk of questioning political values (Garrett, 1986). Additionally, forming a

professional view on the effectiveness of certain government expenditures is not without some political judgement, since the stated objectives of that expenditure are not always clearly stipulated in terms of measurement criteria (Day and Klein, 1987). Also, when the state does not have clear measures of productivity and effectiveness relating inputs to their outputs, the audit of efficiency and effectiveness is a process of defining and operationalising measures of performance for the audited entity. In effect, the efficiency and effectiveness of the organisation is not so much verified as constructed around the attest function itself. Internationally, there are different practices in public audit.

There are significant levels of tension for single state (i.e. small ticket) organisations, such as the Irish or Portuguese governments. These tensions are magnified by the addition of differences in practice and procedure in auditing, assurance and VFM across EU states, making the situation more complex for the already complex, multi-cultural and highly political big ticket entity that is the European Union. This paper considers the issue of high quality auditing within the big ticket public organisation of the EU.

THE RESEARCH PROJECT

In the context of Ireland's presidency of the EU commencing on 1 January 2004, the Irish Parliament established a Research Advisory Group, in June 2003, under the chairmanship of the author, to examine the structure of the European Court of Auditors (ECA). This was particularly pertinent in the light of international concern for enhanced auditing standards in the context of good corporate governance of the public sector and in the light of the admission to the EU of the ten new member states, the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia.

RESEARCH METHODOLOGY AND LIMITATIONS

The Group's brief was to conduct a desk-based literature review. However, the author concluded that it would not be possible to reach any balanced conclusion without conducting appropriate empirical research, and interviews with relevant experts were conducted. Therefore, in addition to an examination of the literature and relevant legislation, regulation and other documentation, semi-structured interviews were arranged with all the previous Irish members and all the current members² of the ECA and with academic and government experts. Experts interviewed as part of this process included Professor Eunan O'Hallpin, Trinity College Dublin, John Purcell, Comptroller and Auditor General, Professor Brigid Laffan, UCD, Richard Healey, Department of Agriculture and Marian Byrne, Department of An Taoiseach. Due to the sensitivity of the subject matter, it was agreed with interviewees in the ECA, i.e. the members and the senior professional staff, that their comments would not be identified in the research report. The interviews were semi-structured. The objective of the interviews was to explore the experience, views and attitudes of the interviewees in relation to the structure and

management of the ECA in order to form a view as to the extent to which the structure of the ECA conformed to the fundamental principles of auditing. The experience and perceptions of past members, current members, senior staff of the ECA and other stakeholders informed the analysis and conclusions of this paper.

The research did not address the auditing standards applied by the ECA, nor did it conduct any detailed empirical work to assess the competencies of individual members or staff members of the ECA. This may be regarded, therefore, as a preliminary piece of work to highlight the conformance of the ECA structure with fundamental principles of auditing, including VFM auditing.

RESEARCH FINDINGS

Professional competence

The ECA is mandated by the Treaty establishing the European Community (last amended by the Treaty of Nice) to 'carry out the audit' (Art. 248). The ECA was established by the Treaty of Brussels in 1975. It became operational in 1977 and was promoted to "Institution" in 1993 with the Maastricht Treaty (Laffan, 1997). The name "Court of Auditors" was taken from the continental European system of a court with judges overseeing the audits, having the power to make judicial rulings. The ECA consists of one national from each member state (Art. 247). A member of the Court of Auditors (a member) is appointed by the Council, having consulted the European Parliament, based on proposals made by each member state, for a period of six years (renewable). The qualifications required are that the member should belong, or have belonged, to external audit bodies or be especially qualified for the office. It was originally envisaged that the members should be nominated by member states from their National Audit Office (NAO) – known in some member states as a Court of Auditors and, in others, as the office of the Comptroller and Auditor General.

The interpretation of 'especially qualified for the office' appears to be broad. It was interpreted by one member as 'every honourable citizen is qualified for consideration'. Custom and practice has developed which makes it possible to predict the most likely profile of a member. For example, the British member is likely to be appointed from HM Treasury, the Irish member to be a politician experienced in budgetary matters, the Danish member and, generally, the French member to come from their respective NAOs, and so on. The membership of the ECA at the date of the study comprised six members of NAOs, five members of Parliament, two civil servants, one qualified accountant and one IMF advisor. The fundamental principles of integrity, objectivity, professional competence, confidentiality, professional behaviour and independence do not appear to be used as a template to assess the ECA structure or the appointment of individual members, although members are required to be independent (Art. 247.4) and may not take any instruction from their government or any other body. They may not engage in any other occupation (gainful or otherwise) during their term of office (Art. 247.5).

Members are remunerated for the post on the same scale and benefits as a judge of the European Court of Justice, similar remuneration to that paid to a Commissioner. Benefits include a three-year "transition payment" after the final year of office to compensate for not becoming involved in organisations previously audited (Inghelram, 2000). This clearly supports the independence requirement of the principles.

The Rules of Procedure (2002:9) stipulate that the members themselves elect the President (regarded as *primus inter pares*) from among their number for a period of three years (renewable). The ranking order, after the President, is based on date of appointment and, where members have been appointed on the same day, based on age (Art. 7).

Just less than 50 per cent of the staff members were employed as auditors. Auditing staff are not required to be professionally qualified under the requirements of their national state, and are not assessed against any template established by the ECA itself to ensure uniformity. The remainder are employed as translators and administrators. The proportion of staff holding professional audit qualifications was estimated at 15 per cent.

Art. 248 mandates the ECA to 'carry out the audit'. It has the right to organise its own audits independently and to extend the audits into the field of 'sound financial management' (also known as VFM audits). The purpose of the audit is to provide an assurance as to the 'Reliability, Regularity and Legality of the underlying transactions'. Art. 248.1 defines an audit as the examination of the accounts of all revenue and expenditure of the EU. Art. 248.2 specifies that the audit shall consist of an examination of whether all revenue has been received and all expenditure incurred in a lawful and regular manner and whether the financial management has been sound. In particular, there is a requirement to report on any cases of irregularity. There is an assumption that the audit of expenditure (but not income) will be based on commitments undertaken and payments made. Art. 248.2 also requires the ECA to 'examine whether the financial management has been sound [and in doing so to] report in particular on any cases of irregularity'.

The responsibility for the detection and investigation of fraud, however, is in the hands of the European Anti-Fraud Office (OLAF). Internal audit is conducted by the Internal Audit Office.

The above mandate emphasises a compliance focus of audit. On the other hand, the ECA document (2000) on *Court Audit Policies and Standards* requires its staff (10/02) to conduct an audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Auditing Standards and the International Federation of Accountants (IFAC) International Standards on Auditing insofar as applicable in the EU context, which is a more risk based approach. However, the introduction to the ECA document refers to the desire to provide a common methodological thread to run through the 'rich diversity of public audit traditions in the EU member states' (p. 2), which in Eurospeak indicates the tension and variety in the development of auditing standards in member states and that staff and members bring to the ECA. A detailed audit manual is in use by the EU; however, individual staff and members bring their

own local practices, experience and procedures to their work at the ECA. The section in the manual on sound financial management (or value for money auditing) is very thin and practice is reported as "patchy" by the staff. So, although there is an audit manual which should standardise practice, and should ensure uniform professional competence and common application of standards of integrity, objectivity, independence and confidentiality by auditors, nevertheless, the varied environments in which they audit, have been trained and have gained experience mean that they come with different traditions. These have been described by a senior auditor as ranging from the risk and control assessment model, to a court model where members are judges and have judicial powers, to what has been described as a "search, find and punish" model. Therefore, it was concluded that while it may be possible that the diverse backgrounds, experience and qualifications may bring a common level of independence, objectivity, professional behaviour and confidentiality, the structure is not such that there is a uniformly high standard of professional competence of the staff and the members.

One of the fundamentals of professional competence is a system of quality assurance of the work of the auditor. This includes systems for assessing the procedures and policies adopted by the audit teams and an ex-post review of the work done. It is usual to have a system of internal check and external peer review. The ECA has recently introduced a system of internal check, but to date has implemented no system of peer review, although special reports are sent to outside evaluators (mainly universities) for analysis and comments on the overall quality. A system of internal peer review was introduced some years ago, with members conducting reviews of other groups' work. However, it was not successful, as members were reluctant to criticise each other, and one member reflected the general feeling when he said that the system was "cumbersome and did not add value to the discussions that already took place in the Audit Groups and in the Court".

Independent leadership

Under the current Treaty provisions, ten new member states admitted in May 2004 automatically gave rise to ten new members of the ECA with their accompanying entourage. The current Court is thus a group of 25 members, not all with qualification in auditing.

The arguments in favour of continuing with a system of one member from each member state, appointed by their respective governments, were synthesised from the perceptions and views of the interviewees as:

1. It will be better to allow the new member states to participate in the current structure for a time. When they have had experience they can participate in and contribute to any streamlining.
2. In the current environment of political tension between small member states and large member states, any change in the structure of the ECA could be seen as a dangerous precedent leading to demand for change in other institutions, which would simply inflame the sensitivities of smaller states.

3. Given the different traditions of auditing around the EU, it is good to have representation of all traditions at the decision making level.
4. The reports of the ECA are widely accepted throughout the Union because they are agreed by a body that has a voice from every member state.
5. Each member state currently has its own "eye" examining the expenditure of the EU.

The difficulties associated with maintaining the current structure were synthesised from the interviews and the literature search as:

1. A continuation of the system of top-heavy leadership characterised by little or no up-to-date auditing qualification, experience and competence.
2. Additional direct cost of €8,000,000 and unquantified indirect cost.
3. Difficulty in finding work for ten very highly remunerated officers and their 44 support staff.
4. Slowing down of decision making by virtue of having 25 people around the table.
5. Lengthy debate, with members bringing their local diverse experience of audit development to the discussion.
6. Decisions taken based on the desire to achieve consensus resulting in the lowest common denominator rather than the highest international standards.
7. Resources being spent on paying for additional members that might otherwise be expended on recruiting world class audit staff.
8. Dilution of the reports in order to achieve consensus as to wording.

The system of one member per member state was established when there was a small number of member states. The intention then was to establish a broad oversight board with representation from each member state (O'Halpin, 1997). Now, the whole international environment of audit has become highly technical and requires a very specific range of qualification, skills and experience. Broad oversight and political representation are no longer appropriate.

O'Halpin, in interview, expressed the view that it is clear why one would wish for representation from each member state in the Parliament and possibly even in the Court of Justice where democratic representation of different constituencies is critical. However, he was of the view that regional representation is less critical in an area where professional competence is a significant criterion. Given the current development in auditing standards, expertise and competence, an international, uniform, professional model based on best international development would seem more appropriate for the ECA. Although independence is already a stated part of the requirement for appointment to membership, the view was expressed during the interview process that it is not inconceivable that a member would feel under pressure to influence a critical report concerning his/her own government, especially when his/her appointment and re-appointment is in the gift of that government. It is not enough for members to be independent. They must also be

seen to be independent – thus independence must be a pivotal demonstrable competence within this model.

It was observed by one interviewee, who is a senior professional member of the audit management team, that any necessity for in-house familiarity with the varied accounting and auditing practices in member states can be satisfied by staffing decisions. It should not interfere with the independent competence of the ECA and should not be a driver for appointment of the members (or the leadership) as currently is the position.

Thus, since the public audit of multi-state organisations encompasses a highly complex, multi-layered terrain, it is suggested that it is appropriate to change the structure of the governance of the ECA from an oversight body that is politically or geographically representational, to one which is based on the principles of independence, integrity, objectivity, and professional behaviour and, especially, professional competence.

Possible models

It can be assumed that it is the objective of the member states to have, in the ECA, a world class external audit function which would provide a high level of independent assurance to citizens as to the internal control systems in place. This would ensure that taxation revenues are being correctly applied in accordance with their wishes in the most effective manner possible. However, the current structure of appointing leadership to the ECA, based on national nomination of persons using fairly general qualification criteria (sometimes including loyal service to the political party in power), is unlikely to deliver on such an objective. In discussion with the interviewees, including the current members, a number of options for structuring the ECA emerged. There was a fair degree of unanimity apparent when the suggestions were analysed and **Table 1** below is a summary of the main models proposed in order to arrive at the objective of independent, professional competence.

When tested against the IAASB fundamental principles, especially that of professional competence, and taking into account the need to be sensitive to the political imperative of having some level of multi-state representation, the model that emerged as most likely to fit was Model 6.

TABLE 1: SUMMARY OF MAIN MODELS

No.	Model	Characteristics	Advantages and disadvantages
1	Status quo	Allows member states to continue to nominate one member.	Although this is familiar and is demanded by the accession states who do not wish to be excluded from this Institution, it is very cumbersome and retains the top-heavy management by political appointees. At present, there is only one professionally qualified accountant among the 25.
2	One member/one state, with devolved decision making	This is the model which is being currently discussed by the ECA. The Treaty of Nice stipulates (Art. 248) that 'the Court of Auditors may establish internal chambers in order to adopt certain categories of reports or opinions under the conditions laid down by its Rules of Procedures'. Although the ECA's proposals to implement this provision are not yet published, it would be possible to envisage dividing the work of the ECA into four audit groups and two horizontal groups with perhaps 4 to 6 members allocated to each. It is possible to envisage a situation whereby each group would elect a "dean" or leader, with the group of leaders forming the ultimate decision making body.	This provides a pragmatic solution to a political problem. It fails to grapple with the fundamental problem of an unbalanced, clumsy, unnecessarily expensive and unbusinesslike top level management structure. There would be a complete lack of clarity about which reports could be approved by the chambers and which by the college. There is a possibility of legal challenge to a decision if it were incorrectly defined for approval.
3	Retain one member per state, with two-tiers of decision making	In this model, the Court would continue to consist of one national from each member state, retaining the current collegiate system. This model, similar to that proposed by Giscard d'Estaing (Parker, 2003) for the Commission, would involve streamlining an executive and dividing the 25 members into voting and non-voting members to ensure that each member state has a voice (if not a vote).	This would be acceptable to those member states holding voting seats, but unlikely to be acceptable to those with non-voting seats. The model still leaves all the problems of top-heavy management.

No.	Model	Characteristics	Advantages and disadvantages
4	Establish a post of Auditor General with a supervisory board	A person would be appointed, under this model, based on his/her technical and managerial competence and experience. S/he would be internationally recognised and would command respect from the audit and finance communities of all the member states. The supervisory board would be a part time board of some 25 persons appointed by the Parliament but working with the Auditor General.	Although this model is familiar to some member states, it is unlikely to be acceptable to most of the states who would focus on the unbalanced power given to the state providing the Auditor General.
5	Establish a European Audit Office with five members on a list system	Under this model, members would be recommended to the parliament from their member states on the basis of a randomly ordered list of the member states. The first five states on the list would provide members for a term of office of five years. Each year one member would retire and one would be appointed from the next member state on the list.	There are likely to be problems of ensuring an appropriate mix of competencies, since the appointments would be made independently of each other and would be influenced by political rather than technical criteria. There would be gaps of up to 25 years before the member states took their initial places and, thereafter, a further gap (assuming no further enlargement) with no representation.
6	Establish a European Audit Office with five Auditors General and a supervisory board	Five persons would be appointed based on technical and managerial competence and experience. As with the Auditor General in Model 4, they would be internationally known, commanding respect and acceptance. They would appoint one of their number as Managing Auditor. They would serve for a period of six years, renewable for a further three years. The supervisory board would be as Model 4.	The five persons would be selected by international competition based on identified competencies (see Table 2). It would have the advantage of focusing on the competencies of the members rather than on their citizenship. It would provide opportunities to have a mix of good competencies since it would be unlikely to have all desired competencies in one person. This model could be combined with a 25 seat supervisory board.

Competencies of leader

Article 247 of the Treaty of Nice requires that 'members of the Court of Auditors shall be chosen from among persons who belong or have belonged in their respective countries to external audit bodies or who are especially qualified for this office'.

At present, members are nominated by the government in their own member state. This militates against assessing the competencies of the leadership team of

the ECA as a package. There is only one professionally qualified accountant. In general, the experience since 1977 has been described by one member as a “mixed bag”, with some highly energetic and very productive and effective members and some who are perceived as less effective.

It has been suggested by several commentators, including O’Higgins (1994) and the House of Lords Select Committee (1987, 2001), that only men and women with professional audit qualifications should be appointed to the ECA. However, the experience of those working in the ECA would not support such a clear selection criterion. Some of the political appointees have proved to be visionary, extremely hard working and excellent leaders of change. On the other hand, some of the professionally qualified accountants have proved quiet and not necessarily at the cutting edge of professional developments. It would seem that qualification and experience in audit by itself is not enough to provide the range of competencies needed to manage a modern audit facility. The proposal to seek the range of competencies required (see Table 2) not from one single person, but from five, addresses this issue.

Although there is, at present, a structure for continuing professional development (CPD) for the staff of the ECA, there has been no history of a programme of CPD for the members. There is a small budget for training members, but it was noted during the course of the interviews that it has generally been the case that members have not been interested in the formal development of their own audit or business competencies. Additionally, they have been reluctant to join training courses with other members of staff.

Clarity of structure

In order to deliver an objective and professionally competent structure, the ECA must establish its role with clarity for its stakeholders. In particular, it is important that there is clarity around the audit roles of other linked bodies. These other bodies include OLAF (referred to earlier, p. 6), the Internal Audit Service and the National Audit Offices (NAOs) of the different member states. This multiplicity of audit increases the complexity of the structure of the ECA.

The role of the NAOs in member states has some overlap with the role of the ECA. The professional relationship between the NAO and the ECA has some of the characteristics of the relationship between external auditor and internal auditor. However, it is a complex relationship and was reported in the interviews as being ‘occasionally difficult’. Some of the reasons for the complexity are:

1. Only approximately 5–10 per cent of the member states’ finance comes from the EU and, therefore, the audit of the EU funds is not as significant to NAOs as it is to the ECA.
2. Public accounting systems vary across the EU. For example, accruals based accounting is not universally used and, in some member states, ex ante control of spending is the practice.
3. The audit cultures in the NAOs across the EU are significantly different. In some, the culture is moving towards a corporate governance model with

identification of the key business risks and of the controls put in place to mitigate the risks. In others, the culture is still one of random or detailed checking of transactions. The range is from first to fourth generations. In some, there is experience of value for money audit and in others it is strictly compliance auditing. Some member states' NAOs have some of the characteristics of policemen, seeking out, exposing and punishing error and fraud. Others have created an environment of partnership with the auditees to improve systems based on the risk assessment in a proactive way.

4. The auditing standards and guidelines used are not universally at the highest international standards.
5. In some NAOs, the audit report is published within six months of the financial year-end. In others the audit reports can be up to seven years after the year-end.
6. There is considerable professional and political sensitivity between the ECA and the NAOs as to respective authority. The ECA is required to improve cooperation, but the NAO is not; the NAO also has rights to be present during the audit of the ECA in their member state. It is felt at the ECA that some NAOs view them as "big brother" and cooperation is sometimes difficult.
7. Some member states have Courts of Auditors with judicial powers and judges making judgements. Others have professional public sector auditors reporting to parliament.
8. There is a perception of unwillingness among some NAOs to engage in debate with other EU NAOs to develop common standards of auditing.

In summary, the relationship between the ECA and the NAOs can be difficult. There is a commitment to enhance the relationship, however. The Treaty of Nice introduced a declaration inviting the ECA and the NAOs to improve the framework and conditions for cooperation between them, while maintaining the autonomy of each. This research indicated a willingness to pursue the possibility of a streamlining and clarification of the respective roles and responsibilities of these organs.

Another player in the shared field of auditing EU finances is the recently established Internal Audit Service of the Commission (IAS). The ECA has established a working relationship with the Audit Progress Committee of the Commission. The internal/external auditor relationship is clearer between the ECA and the IAS than in the case of the ECA relationship with the NAOs. The working relationship established has incorporated some preliminary work on information sharing and joint training. There is considerable potential for collaboration and the application of the best international principles and practices of external auditor reliance on the work of the internal auditor.

It is not desirable that the work of managing the economies of the member states be impeded by an unnecessary burden of duplicated auditing. As an example, in Ireland, the Department of Agriculture provided figures to the author showing that the Department had approximately 2,800 audit days in 2002, made up as follows:

Audit Body	Number of days
NAO – Comptroller and Auditor General	332
Deloitte & Touche (Certifying Body)	373
European Court of Auditors	76
IAS – EU Commission	33
Internal Audit Unit	1,986
Total	2,800

This does not take into account the work of the Department’s own Audit Committee and the De Santo Veterinary Inspection. OLAF did not audit the Department in 2002 but, in other years, would add to the burden of audit. In some cases, the various auditors were conducting audit work on the same expenditure programmes. If the emphasis were on professional competence, it is possible that a more streamlined web of relationships could be developed to enhance the delivery of a higher quality EU audit package. This area is worthy of further research.

Staff competence

Additional staff were required to cope with the increased workload arising from the enlargement. It has become more difficult to recruit and hold high calibre auditing staff. This arises for a number of reasons:

1. More attractive and flexible salary packages available in the private sector.
2. The location of the IAS in Brussels being perceived as more attractive, especially to young, single auditors, with some staff moving there.
3. Very rigid requirements for recruitment and reward imposed by the EU staff regulations.
4. Lack of modern staff development HR strategies.
5. Very heavy compliance work loads with little time to address overview policy issues.
6. Difficulty in establishing esprit de corps due to widespread locations and lack of communication across the groups (this issue is also being addressed by the Secretary General, who has plans for establishment modifications).
7. Lack of clarity about the respective roles and responsibilities and inter-relationships between the members, heads of cabinet, heads of division and attachés.
8. Absence of a modern change management programme.

It emerged from the interviews that there was some initial fear that taking staff from the new entrant states and trying to audit in those states might present a considerable challenge to the ECA. However, following extensive pre-entry assessment and collaboration with the NAOs in the new member states, that fear has been somewhat alleviated. Although many of them were operating formerly under socialist financial systems, all have expressed a willingness to advance and develop their financial and control systems to bring them to EU standards. It

appears likely that the NAOs in some of the older established member states will present more difficulty than the newly accepted members, many of whom are currently working closely with the ECA to enhance their own standards to bring them to a high international quality.

Professional auditing standards

Professional competence comes from the qualifications, training and experience of the auditors and it also requires the application of current professional auditing standards. This research did not include a review of the auditing standards applied by the ECA and does not assess the quality of the work done by the court. Indeed, these areas may prove attractive for further research. However, the study demonstrated that the audit work of the ECA is complex and is not exactly the same as the work done by a private auditor or a NAO. There are complexities of geography, language, audit and accounting culture, and the audit trail itself.

The ECA has, as its stated *modus operandi*, risk assessment and internal control audit in a multi-cultural environment. Its own staff, although trained to the current audit guidelines, come themselves from very varied backgrounds. In the area of assurance, it is clear from the audit report (Official Journal, 2002), that the Commission's accounting systems are not of a sufficiently high standard that an audit based on assessment of risk and of controls could be conducted. This audit must, by virtue of the lack of controls and the poor systems, involve a considerable amount of substantive audit. The interviews provided evidence that there is a tendency for audit staff of the ECA to visit audit sites, "hoover up" documents and arrive back at base with so much documentation that it is impossible to review it all. Resultant reports tend not to focus on a set of pre-stated objectives of the audit, the tests effected to achieve the objectives and the opinion based on the outcome of those tests. The reports can often be guided by the unspoken rule "if it was done, it must be written about", which leads to lengthy reports from which it is difficult to extract the key opinion.

In the area of VFM (or "sound management") audit, even a cursory glance at the audit manual highlights the paucity of clear guidelines for this work. Additionally, there seems, from the response of the interviewees, to be some resistance to developing an ECA methodology. Some interviewees in the ECA expressed the view that there is a difficulty in VFM audit as it necessitates some level of subjective commentary on political decisions. This demonstrates that there was not a clear understanding of the parameters of value for money audit.

The fundamental principles of professional competence and due care assume some form of peer review to assure quality. The quality of work done by the ECA is not subject to independent peer review, although considerable effort has been applied to installing an internal system of quality review, which appears to be of a high standard.

CONCLUSIONS

The following issues emerged from this study of the structure of the ECA: fundamental auditing principles require the application of integrity, objectivity, independence, confidentiality, professional behaviour and, critically, professional competence. This review of the structure of the ECA, its leadership and staffing has indicated that it may be deficient in realising these fundamental principles. This preliminary review has demonstrated several issues, some of which may provide rich sources of further research. Auditing the financial decisions and disbursements of a single state is complex. All the more so is the audit of a multiplicity of states engaging in financial decision making. The study points to the possibility of political factors being brought to bear in the appointment of the auditors. This issue could become exacerbated as the EU expands. In relation to the audit of such budgets, there is a need for a rigorous, independent and politically neutral model of appointing the competent auditor, of receiving and promulgating the audit report and of acting on the findings of the auditor. Discussion with the participants in this study resulted in a proposal for a panel of five Auditors General and for the clear stipulation of the professional competencies required to align with the fundamental principles set out by IAASB. Synthesis of the proposals emerging from the study resulted in the proposed competency framework shown at **Table 2**. These competencies and the application of such a competency framework provide opportunities for further research.

The literature has acknowledged the inbuilt tensions in the area of public audit between the assurance role and the VFM role of the public auditor. In the case of the ECA, work is being done to bring the assurance work and the underlying accounting records being audited to the highest international standards of practice and procedure. An internal audit function has just been established but, at the time of writing, a clear understanding of points of collaboration and separate responsibilities has yet to be developed. In order to allow the ECA to devote resources to the assurance function and to avoid the tensions between the attest and VFM roles, the highest standard of professional collaboration must be achieved between the ECA, OLAF, the IAO, the universities and the NAOs. Such professional collaborations would assist in achieving the performance of transparently independent audits with no suggestion of political intervention. Audit offers an indispensable element of good corporate governance and accountability. However, there is a risk of over-regulation and over-audit. Consultees in this process expressed themselves "over-audited". There is weak collaboration between all the organs of audit within the EU. Links with the research community are currently slight. Strengthening such links would only enhance the development of this complex area of public audit.

TABLE 2: COMPETENCIES OF AUDITORS GENERAL

The competencies proposed for the Auditors General of the EU are given below. It is proposed that each Auditor General should have the competencies marked thus: ◇. The other competencies recommended below should be present among the five appointees.

- Professional auditing qualification and experience at world-class level, ideally with undergraduate qualification in a non-business field, such as engineering, philosophy, medicine etc
- IT and computer audit qualification and experience (incorporating knowledge of the audit of computerised accounting information systems and the use of computer based audit tools)
- Statistics qualification and experience
- Risk analysis and risk management experience
- Legal training and experience
- Excellent communication skills (including cultural sensitivity, willingness to participate, ability to listen and a knowledge of corporate communication) ◇
- Fluency in at least English and French ◇
- Understanding of the political sensitivity of certain situations ◇
- Understanding of economics
- Understanding of public finances ◇
- Knowledge of the workings of the European institutions
- Excellent management skills (including change management, financial management, organisational skills and human resource management)
- Strategic and analytical thinking
- Problem solving
- Common sense ◇
- Independence ◇
- A good sense of ethical values ◇
- Willingness to participate in personal CPD and developmental review ◇
- Integrity and the capacity to command the respect of the staff and the international audit and public finance communities ◇
- Ability to motivate
- Self-efficacy ◇

Staff need an appropriate level of professional training and skills to implement the high quality audit principles that should emanate from competent independent leadership, utilising a high level of professional collaboration with other audit bodies and the best international standards and procedures. Staff were not involved in the discussions relating to the change in structures and strategy arising from the overall review of the ECA and from the expansion of membership. There was a strong feeling of exclusion and threat expressed by the senior and middle managers. Although this study did not examine the competencies of the staff in the EU, a level of disquiet at the professional competencies emerged from the interviews. Again, this is a possible area for further research.

It was concluded that there is scope for enhancement of the structures of the ECA to ensure a high standard of public audit for the EU. Areas for further research were noted, while proposals for immediate attention by the EU were identified as:

1. Five Auditors General to be appointed by international competition based on identified competencies (see **Table 2**).
2. Collaboration with NAOs, IAS and OLAF in order to reduce the burden of duplicated auditing and to enhance co-operation between these offices.
3. Communication and collaboration between the audit organs and the research community.
4. A review of the competencies and qualifications required, with staff recruitment being undertaken in the light of the lacunae identified by a comparison of requirement with existing competencies.
5. A strategic commitment to the adoption of the highest quality international standards of public accounting and auditing, and rigorous steps taken to ensure that the multinational and multicultural staff members are appropriately trained to implement them.
6. Regular peer review of the ECA by a body such as the National Audit Office of New Zealand, Australia or the USA.
7. Parameters for VFM to be stipulated and implemented.
8. CPD for staff (including the Auditors General) to be built into all contracts.

By way of footnote to the research, the recommendations were adopted by the Conference des Organes Spécialisés dans les Affaires Communautaires (COSAC) in June 2004 and have been put onto the work agenda of the European Parliament, the ECA and the European Council of Ministers.

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NOTES

- 1 See also Hood (1995) who argues that the rise of NPM is not necessarily a function of Anglo-American conservatism. For an insight into the situation in Australia, see Parker and Guthrie (1993).
- 2 The ECA is managed by its 25 members, one from each member state. They are not necessarily qualified as auditors. The current Irish member, for example, is a primary school teacher who has served as a TD and member of the Cabinet.

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