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Sara Davies, Laura Polverari

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FINANCIAL ACCOUNTABILITY AND EU COHESION POLICY

AUTHORS:

Sara DAVIES

European Policies Research Centre, University of Strathclyde, 40 George Street, Glasgow G1 1QE, United Kingdom

Sara.Davies@strath.ac.uk

Laura POLVERARI

European Policies Research Centre, University of Strathclyde, 40 George Street, Glasgow G1 1QE, United Kingdom

Laura.Polverari@strath.ac.uk

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ABSTRACT

Many changes in EU Cohesion policy since the late 1990s have been driven by the need to ensure and demonstrate financial accountability. This paper examines how the increased emphasis on financial management, control and audit in relation to the EU budget is re-shaping the governance of Cohesion policy, as well as the instruments of financial accountability. It also assesses the effects of these new instruments on financial flows and considers how these changes are perceived by policy-makers. Last, it explores the difficulties of assessing the impact of administrative changes on financial accountability in Cohesion policy.

KEY WORDS: Accountability, Financial management, Audit, Cohesion policy, Structural Funds

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1. INTRODUCTION

The European Union (EU) has made significant changes in its approach to the management, control and audit of its budget, including Cohesion policy [ENDNOTE 1], since the late 1990s. Studies of this process have focused primarily either on political shifts and tensions (BAUER, 2008; KASSIM, 2008) or on the administration of these approaches (ÖIR et al., 2003; WOSTNER, 2008). This paper instead examines these changes as part of a broader shift in governance (HOOD, 1991; FERLIE et al., 2007) and, specifically, as indicative of a stronger focus on accountability in the use of public resources (BRINKERHOFF, 2004; BENZ et al., 2007). Although some dimensions of accountability in Cohesion policy have been studied (notably in terms of its economic impact [RODRIGUEZ-POSE and FRATESI, 2004; BRADLEY, 2006; MARTIN and TYLER, 2006]) and effectiveness [KELLEHER et al., 2003; BACHTLER et al., 2009]), there are gaps in the literature concerning the Cohesion policy approach to financial management, control and audit; the effects of the increased focus on financial accountability in the 2000s; and interactions between accountability and other goals such as policy effectiveness and efficiency.

This paper seeks to investigate, first, how EU financial management, control and audit are changing the governance of Cohesion policy (who is responsible to whom for specific aspects of financial accountability) (OLIVER, 1991; ROMZEK and INGRAHAM, 2000; BOVENS, 2007) and, second, the types of instrument that are being employed to ensure financial accountability (MULGAN, 2003; DEMKE et al., 2007). Third, it examines the effects of increased control and audit on financial spending. Fourth, it considers the difficulties involved in assessing the impact of regulatory changes on the level of financial irregularities in Cohesion policy and explores how these changes are perceived by staff involved in programme administration, not least in terms of the interactions between financial accountability and other policy goals, such as administrative efficiency and policy effectiveness (MULGAN, 2003; GREGORY, 2007).

The remainder of the paper is structured as follows. The following section examines the literature on financial accountability, drawing key questions in relation to Cohesion policy which are explored in subsequent sections. The third section examines methodological issues, while the fourth describes the allocation of responsibilities between authorities in relation to financial accountability in Cohesion policy. The fifth section examines the implementation of financial accountability, assessing the impact of the so-called 'n+2 rule' on financial absorption, as well as the effect of audit procedures on the scale of irregularities. The sixth section considers whether there are tensions between financial accountability and other goals, notably efficiency and effectiveness. The final section discusses the research findings, as well as methodological challenges and areas where further research is needed.

2. FINANCIAL ACCOUNTABILITY AND COHESION POLICY

2.1 Accountability as a policy tool

Although an extensive literature has developed on accountability (BENZ et al., 2007; BOVENS, 2007; BRINKERHOFF, 2004; MULGAN, 2003; OLIVER, 1991), little has been written on this theme in relation to Cohesion policy (but see POLVERARI, Forthcoming). The term 'accountability' is generally used to imply that actors are required to account for the discharge of their duties or conduct, that they are constrained by external mechanisms and internal norms, and that they must suffer the consequences if errors have been made (BOVENS, 2007; KOPPELL, 2005; OLIVER, 1991). The emphasis on accountability in recent decades can be seen as part of broader reforms aimed at enhancing the efficiency and effectiveness of public sector activity (HOOD, 1991; cf. FERLIE et al., 2007), which range from the privatisation of public functions, to the introduction of performance measurement techniques, the establishment of audit and regulatory authorities, and the decentralisation of functions to non-governmental agencies and sub-national bodies (MODELL, 2004; POLLITT and BOUCKAERT, 2004).

Studies identify a number of dimensions of accountability, notably financial correctness and efficiency, the quality of policy interventions, and the achievement of political goals (BRINKERHOFF, 2004). The first of these, financial accountability, relates to the control and elimination of waste and corruption and involves compliance with legal procedures, as well as the use of external audit mechanisms. In contrast, performance accountability emphasises improvement and learning, drawing partly on legal, regulatory and policy frameworks but also on instruments such as benchmarking, monitoring and evaluation. Lastly, political accountability encompasses efforts to ensure that governments meet election promises and respond to societal concerns, partly via the electoral process, but also through broader efforts to build trust in governmental ethics and shared societal values.

Within each of these dimensions, the literature suggests that there is a need to analyse a number of aspects of accountability, notably how accountability operates and which actors are responsible to whom (BOVENS, 2007; OLIVER, 1991; ROMZEK and INGRAHAM, 2000), as well as the kinds of instrument used to ensure accountability, for example, administrative rules, procedures and practices (DEMKE et al., 2007; MULGAN, 2003). A final set of concerns relates to the tensions that can emerge between accountability and other values, such as policy effectiveness and efficiency (GREGORY, 2007; MULGAN, 2003).

2.2 Financial accountability in EU policy-making

There has been a clear focus on strengthening financial accountability in EU policy-making in recent years, particularly in the context of the EU response to financial irregularities in European Commission activities in 1998, as well as shifts in the character of the EU due to recent enlargements. The refusal of the European Parliament to discharge (or sign off on) the Community budget in 1998 led to the resignation of the Santer Commission in March 1999 (BAUER, 2008; KASSIM, 2008) and to a reform package which included the creation of new Commission offices to investigate fraud and undertake internal audits, notably the European Anti-Fraud Office and the Commission's Internal Audit Service, as well as stronger financial control and audit functions in Commission Directorates General (DGs) responsible for the EU budget. Pressure for enhanced financial accountability has also been stimulated by changes in the European Council's composition and focus in the context of recent enlargements, which have led to a greater diversity of national interests, an even stronger awareness of the redistributive dimension of the EU budget, and an increased emphasis on how Member States use EU resources (BACHTLER et al., 2010).

One of the challenges of ensuring financial accountability is that EU policies – not least Cohesion policy – involve multi-level and networked forms of governance (MARKS et al., 1996; BACHE and FLINDERS, 2004; BACHTLER and MENDEZ, 2007; BENZ et al., 2007). Where policy-making is based on complex formal and informal relationships between multiple levels and actors, there is a need for different types of accountability mechanism than those employed in simpler, hierarchical systems (RHODES, 1997). Nevertheless, financial accountability has not been the subject of studies relating to Cohesion policy, even though issues relating to performance accountability (KELLEHER et al., 2003; BACHTLER et al., 2009) and political accountability (RODRIGUEZ-POSE and FRATESI, 2004; BRADLEY, 2006; MARTIN and TYLER, 2006) have been explored. There has been little analysis, for example, of the ways in which actors are held accountable for the use of funds, or of the systems and procedures used for managing, controlling and auditing expenditure, or of possible tensions between financial accountability and other, equally important values. The following sections address each of these aspects in relation to Cohesion policy.

3. METHODOLOGICAL ISSUES

The analysis of financial accountability in Cohesion policy faces a number of methodological challenges. One set of difficulties concerns the limited data published by the European Commission and the European Court of Auditors on administrative costs and on financial audit. This study has addressed this difficulty by drawing on extensive desk research and also on interviews with staff responsible for managing programmes in 15 Member States [ENDNOTE 2] as well as in the European Commission.

The desk research primarily focused on policy documents relating to the financial management, control and audit of Cohesion policy, particularly EU Treaties and regulations, as well as reports published by the European Commission, the European

Court of Auditors and the European Parliament, and documents produced by Member States and regional authorities. However, the European Commission and the European Court of Auditors publish only relatively limited data on administrative costs and on financial audit. There is, in particular, a lack of comparable data on the costs of administering Cohesion policy programmes and projects across Member States and regions. In the case of financial control and audit data, although some information is published by the Court of Auditors and the Commission, the lack of time series data means that published data cannot be used to assess the trend of financial irregularities over time or the effects of changes in financial accountability rules on error rates.

Because of these data constraints, this study complemented the available quantitative data with qualitative information collected via 60 structured interviews with senior staff in managing, certifying and audit authorities in 15 Member States, as well as interviews with audit staff in the European Commission's DG Regional Policy and DG Employment [ENDNOTE 3]. Although not selected as a statistically representative sample, the Member State staff interviewed were responsible for one third of Cohesion policy funding in 2007-13 and involved both national and regional authorities, with good representation from all parts of the EU, encompassing Convergence programmes, Regional Competitiveness programmes, and national bodies responsible for managing and auditing all regional programmes within a Member State. Collectively, the national and regional authorities interviewed are responsible for 32 percent of Cohesion policy funding allocations in 2007-13.

The information collected from the interviews is subject to the same weaknesses as all qualitative data, namely that it is difficult to draw conclusions beyond the cases studied and that efforts are needed to ensure the validity of conclusions (DENZIN et al., 2005). However, qualitative research is particularly useful for investigating 'how' questions, as well as the opinions of interviewees (Ibid.). In this case, the interviews were used to explore how managing, certifying and audit authorities met EU requirements on financial accountability; how their work was affected by changes in the Cohesion policy approach to financial accountability; and their views of the effects of these changes. The researchers used structured interview schedules as a means of increasing the validity of data collected (LINDLOF and TAYLOR, 2002). Moreover, the interview results presented in this paper are fully consistent with the findings of other studies (e.g. ÖIR et al., 2003; WOSTNER, 2008) and are supported by the formal statements of governmental authorities, including the EU Committee of the Regions (COMMITTEE OF THE REGIONS, 2010) and national and regional governments (DG REGIONAL POLICY, 2008b).

4. RESPONSIBILITIES AND FINANCIAL ACCOUNTABILITY IN EU COHESION POLICY

A complex web of relations between EU, national and regional authorities underpins the Cohesion policy approach to financial accountability. Core formal responsibilities are set out in the EU Treaty (EUROPEAN UNION, 2008), and are further elaborated in the Financial Regulation and Cohesion policy regulations (EUROPEAN COUNCIL, 2002, 2006; CEC, 2006a). Since the late 1990s, significant efforts have been made to codify more clearly the obligations of different actors in relation to financial accountability, and this has generated detailed legal and procedural frameworks.

Following changes introduced by the Lisbon Treaty, the consolidated Treaty now states that 'The Commission shall implement the budget <u>in cooperation with the</u>

Member States, in accordance with the provisions of the regulations made pursuant to Article 322, on its own responsibility' and also notes 'the control and audit obligations of the Member States in the implementation of the budget and the resulting responsibilities' (EUROPEAN UNION, 2008, Article 317, authors' emphasis). Thus in principle, ultimate responsibility is now shared by the Member States and the Commission, rather than held solely by the Commission, as was previously the case (EUROPEAN UNION, 2006, Article 274), while the management of programmes and projects is in practice undertaken by large numbers of governmental, non-governmental and business organisations at local, regional and national levels.

This emphasis on shared responsibility between the Commission and Member States was also built into the revision of the EU Financial Regulation in 2002 which, among other things, aimed to bridge the divide between the Commission's formal responsibility for the budget and the multiplicity of decentralised implementing organisations. The Financial Regulation describes three paths for managing different components of the EU budget, namely 'on a centralised basis; by shared or decentralised management; [or] by joint management with international organisations' (EUROPEAN COUNCIL, 2002, Article 53). Cohesion policy is implemented via 'shared management', where the Commission retains 'final responsibility for the implementation of the budget' (IBID, Article 53b), but the Member States are responsible for 'all the legislative, regulatory and administrative or other measures necessary for protecting the Communities' financial interests' (IBID, Article 53b). Member States are required to operate a system which ensures that interventions are genuinely carried out, that errors and fraud are prevented, that any funds wrongly used or paid are recovered, and that effective reporting mechanisms are in place (IBID, Article 28a, Article 53b).

Nevertheless, this does not imply that Member States and regional authorities have increased scope to determine how they should manage their share of the Cohesion policy budget. Indeed, the revisions to the Cohesion policy regulations for the 2000-06 and 2007-13 periods include more prescriptive and stringent rules on financial management, control and audit than in previous periods, partly because the general regulation on the Structural Funds (EUROPEAN COUNCIL, 2006) is now reinforced by implementing regulations (CEC, 2006a). Moreover, the 2007-13 regulations give the Commission a degree of authority over the Member States and regions, particularly at the beginning of the period, when each managing authority must provide the Commission with a detailed description of the financial management and control system for each programme, and the regional or national audit authority must assess the system's compliance with EU rules (EUROPEAN COUNCIL, 2006, Articles 70-72; CEC, 2006a, Articles 21-25). European Commission staff then check both the managing authority's system description and the audit authority's assessment, and can require additional information or checks from domestic authorities. Until Commission staff explicitly approve both sets of documents, only limited funding is released (five percent of EU funds in the EU15 and seven percent in the EU12). This represents a significant shift from 2000-06, when the Commission could not insist on changes in programme implementation systems, nor impose financial penalties.

The Cohesion policy regulations in 2007-13 not only define the obligations of the Member States in procedural terms but also require them to set up a number of different organisations to act as checks and balances within the system of financial accountability (EUROPEAN COUNCIL, 2006, Articles 58-62) . This results in a complex system, as can be seen from a description of the core financial control and audit procedures. A first set of tasks is undertaken by the programme managing authority and includes administrative checks on the information submitted by projects, as well as on-the-spot visits to a sample of projects to ensure that they are respecting EU rules (IBID, Article 60). The managing authority can delegate some project checks to a technical secretariat or intermediate bodies, and in such cases the managing authority undertakes an additional set of administrative checks, both on projects and on the subordinate bodies' systems. Moreover, the administrative checks and on-the-spot visits must be undertaken by a different member of staff than the person who administers the project application and approval process. A second set of checks on projects is undertaken by the programme certifying authority before it approves project payment claims and submits them to the European Commission (IBID, Article 61). The regional or national audit authority completes a third set of checks and audits, encompassing all the programme's management systems and procedures to ensure that they function effectively (IBID, Article 62). In addition, all these organisations, as well as individual projects, are subject to financial controls and audit visits by Commission DGs (including the Commission's Anti-Fraud Office, as well as DG Regional Policy and DG Employment) and the European Court of Auditors (IBID, Articles 72-73). Lastly, programmes and projects must comply with national and regional procedures for financial management, control and audit, which may differ from EU rules, for example in terms of approaches to administrative and on-the-spot checks, data requirements and payment procedures.

Thus although the Treaty and Financial Regulation now allocate greater responsibility to the Member States for financial accountability, the Cohesion policy regulations in 2007-13 are highly prescriptive and allow Member State and regional authorities less scope than in past periods to decide how to ensure accountability in relation to the use of EU funds. The regulations not only define the responsibilities of the Member States more clearly but also require multiple organisations to be set up for each programme, and oblige these bodies to take responsibility for different categories of accountability checks and to operate in accordance with EU rules.

5. IMPLEMENTING FINANCIAL ACCOUNTABILITY IN COHESION POLICY

5.1 Financial absorption

The first measure of financial accountability is the de-commitment or 'n+2' rule which states that managing authorities must pay out annual tranches of Cohesion policy funding to projects within two years or lose the resources from the programme's budget (EUROPEAN COUNCIL, 2006, Articles 93-97). This also implies that all funds must be paid out within two years of the end of the programme period. The aim is to ensure that EU funds are spent in a timely way, as programmes were often slow to absorb funds in 1989-93 and 1994-99 and were not formally closed until several years after the end of programme periods. The n+2 rule was introduced in 2000 and remains in place in 2007-13, although it has been changed to an n+3 rule for poorer Member States, which receive more EU funding and thus face greater financial management challenges.

A full assessment of the impact of the n+2 rule in 2000-06 can be undertaken now that the period has formally closed. Data on financial absorption suggest that the n+2 rule has changed behaviour, leading to a steadier absorption of funds throughout 2000-06. Table 1 shows that almost one third of funds were paid out by 2003 and over 90 percent by the end of the period. Measures taken by managing authorities to meet n+2 targets include improvements in planning, risk analysis and monitoring; streamlined administrative procedures; more support for project generation; increased staff resources; better communication with projects about payment deadlines; and additional assistance to projects in difficulty (POLVERARI et al., 2004; VIRONEN, 2008).

[INSERT TABLE 1 ABOUT HERE]

In addition, managing authorities have used the n+2 rule as a means of inducing changes in the behaviour of other actors, for example by requiring the more rapid submission of payment claims by projects, overcoming interruptions in domestic schemes linked to Structural Funds programmes, and releasing additional domestic co-financing (VIRONEN, 2008). However, some difficulties have proved harder to resolve, not least when unforeseen planning or construction challenges emerge in relation to large infrastructure projects; moreover, if such projects cannot be completed, it is often difficult to re-allocate the large volume of funds quickly enough (DAVIES and GROSS, 2007).

Although there is broad support among regional and national policy-makers for retaining the n+2 rule due to its impact on the timely absorption of EU funding, there are concerns that it leads to an over-emphasis on financial absorption rather than on project quality or strategic programme goals (DOWNES et al., 2003; BACHTLER et al., 2009). For example, pressure to absorb funds more rapidly has led some programmes to relax project selection criteria to include less strategic types of project.

5.2 Financial control and irregularities

While the introduction of the n+2 rule aimed to accelerate financial absorption, the second measure of financial accountability concerns efforts to reduce the level of irregularities. Audits by the European Court of Auditors and the Commission continue to find significant levels of error, although there is disagreement among EU authorities over the scale of irregularities and the broader implications of findings.

The European Court of Auditors publishes its audit results in its annual reports, and data for the last three years show that error rates remain relatively high (Table 2). Unfortunately, the methods used by the Court of Auditors for presenting data have changed several times in recent years, so that it is not possible to use the data to assess whether error rates have fallen since the late 1990s. However, published data show that between 43 and 69 percent of the projects audited in 2006-08 showed some form of financial irregularity (Table 2). In addition, the Court of Auditors' reports state that 11-12 percent of resources reimbursed to the Member States in 2006-08 should not have been reimbursed (ECA, 2007, 2008, 2009).

[INSERT TABLE 2 ABOUT HERE]

The Court of Auditors' findings are, however, disputed by the European Commission which, while recognising that the current level of financial irregularities is too high, questions the Court's methodology and findings (ECA, 2007, 2008). One issue raised by the Commission is the severity of different types of error (ECA, 2008). While some of the errors found by the Court relate to serious breaches of EU rules (such as spending on ineligible projects), many are technical in character. They may include, for example, the declaration of costs not supported by an invoice (including where a project does not retain records for the required number of years); errors in calculating costs; or failures to meet EU rules on tendering, contracting or publicity.

The Commission also argues that the Court of Auditors' 'snapshot' methodology does not recognise that many of the errors would in any case have been detected by regional and national financial control and audit systems (ECA, 2007). However, the Commission's own audits also show significant levels of error (DG REGIONAL POLICY, 2007, 2008a). For example, DG Regional Policy's annual activity reports include an assessment of regional and national management and control systems, which show clear weaknesses (Table 3). In 2008, for example, around 60 percent of systems fell into the two 'best' categories and thus were seen to provide good assurance that effective financial management, control and audit procedures were followed – implying that such assurance was weak or non-existent in the remaining 40 percent of cases.

[INSERT TABLE 3 ABOUT HERE]

Although there is significant disagreement between EU authorities on the scale of problems relating to EU budget implementation (ECA, 2008; EUROPEAN PARLIAMENT, 2009), all agree that efforts are still needed to improve the quality of financial management, control and audit systems in Cohesion policy.

6. TENSIONS BETWEEN FINANCIAL ACCOUNTABILITY AND OTHER POLICY GOALS

While new financial management, control and audit requirements have had only partial success in improving financial accountability, a wider question is how these procedures are seen to have affected other policy goals, notably administrative efficiency (the cost of implementing programmes) and policy effectiveness (the outcomes of policy).

6.1 Administrative efficiency

Studies suggest that the cost of financial accountability mechanisms needs to be taken into account when designing systems because these costs can outweigh potential benefits in terms of reduced waste or corruption (MULGAN, 2003). Similar concerns have been voiced in debates over the control and audit of the EU budget, particularly in relation to the appropriate 'risk of error', as current EU rules state that errors must not account for more than two percent of resources, yet the costs of reducing the level of errors may be higher than savings from improved financial control (ECA, 2008).

In response to these concerns, the European Commission has funded research on the costs of administering Cohesion policy. One study of a sample of Member States found that the cost of financial controls alone was on average 3.5 percent of European Regional Development Fund payments, but that the cost in individual regions and Member States varied from less than 0.5 percent to over 12 percent (CEC, 2008b). At least two other studies have been funded by the Commission. One examined a sample of 16 programmes in eight Member States and estimated total implementation costs as a percentage of EU receipts (ÖIR et al., 2003). It found very widely ranging results (between 1.4 percent and 25.4 percent) but also noted significant methodological weaknesses. The results of a second study for the Commission remain unpublished (SWECO, 2009). This study covered all Member States and focused on all administrative costs (i.e. not only financial management, control and audit), not only in public authorities but also in project-level final beneficiaries.

Further studies of the administrative costs of Cohesion policy by individual Member States have produced widely differing results, depending, for example, on domestic salary levels and administrative structures, as well as diverse methodologies (FERRY and MCMASTER, 2009). Figures range from two percent of EU receipts in the UK (HOUSE OF LORDS, 2008) to 4.8 percent in Sweden (STATSKONTORET, 2000), 5.5 percent in Malta (PWC, 2006a), 7.0 percent in Poland (DORADCA, 2007) and 9.0 percent of total funding in Estonia (PWC, 2006b).

However, significant uncertainties are associated with these estimates. For example, it is often difficult for policy-makers to separate out the Cohesion policy component of administrative costs, particularly as funds are often channelled into domestic instruments. In addition, the multiplicity of organisations involved in administering an individual programme makes it difficult to obtain a comprehensive overview, especially as information on administrative costs is sensitive because the two main variables are staff time and salary levels. Nevertheless, these studies suggest that administrative costs are significant and that an appropriate balance needs to be struck between efforts to ensure financial accountability on the one hand and administrative costs on the other.

6.2 Policy effectiveness

Two existing studies raise questions about possible tensions between EU rules on financial accountability and programme effectiveness (ÖIR et al., 2003; WOSTNER, 2008). This section provides more detailed evidence on policy-makers' perceptions of how changes in EU rules on financial control and audit are affecting Cohesion policy are presented in this section. It draws on a survey of the views of national and regional authorities, undertaken in 2008 via 60 structured interviews with senior staff in the managing, certifying and audit authorities of Structural Funds programmes in 15 Member States.

In some countries, policy-makers argued that the greater rigour of financial control and audit seen in EU Cohesion policy in recent years has brought benefits. A minority of interviewees noted that EU rules on financial accountability had improved the quality of implementation. In particular, staff in Greece and Italy stated that experience of implementing Cohesion policy rules had raised awareness of the need to prevent irregularities and fraud, while interviewees in the Czech Republic, Greece and Poland argued that EU rules were shaping and raising the standards of domestic policy implementation.

However, the stricter rules on financial accountability in the 2000s were also seen to have also led to a significant increase in workload. The interviewees argued that these tasks have now become the primary focus of staff working in managing authorities and intermediate bodies, and many felt that only limited resources were available for other tasks, including strategic design, project generation and selection, output monitoring and impact evaluation.

The workload was viewed as particularly heavy in the case of smaller interventions because the same EU rules apply, regardless of programme or project size, although very large projects (over €50 million) are subject to additional procedures. Thus managing authorities (e.g. in Austria, Belgium, the Czech Republic, Finland, France, Greece, Poland, Portugal, Slovenia, Sweden and the UK) argued that the cost of implementing smaller programmes and projects raises issues of financial viability.

Stricter rules are also seen to have led to changes in the behaviour of both administrators and project applicants. A number of authorities stated that they are now cautious in allocating resources to project applicants who do not have a track record of implementing Cohesion policy projects effectively, or to types of project which have not previously been funded by Cohesion policy (e.g. in Austria, Poland, Slovenia and the UK). This contrasts with the past use of Structural Funds programmes to stimulate new approaches to regional development, for example via support for innovative or community-based projects. Moreover, managing authorities in a number of regions (e.g. in Belgium, Finland, France, Slovenia and the UK) noted that some potential applicants - including relatively large organisations with experience of Cohesion policy implementation - are now reluctant to apply for funds. This reluctance is seen to be rooted in the administrative workload associated with Cohesion policy projects, as well as concerns that, if project-holders make administrative errors, they may have to return funds to the EU, even if errors are not detected for several years.

Nevertheless, many managing authorities acknowledged that the difficulties they faced were not simply due to the complexity of EU rules but also to tensions between EU and domestic approaches. Some authorities stated that Cohesion policy required more detailed approaches to certain aspects of financial management, control and audit than do domestic rules (e.g. in Belgium, the Czech Republic, Denmark, Finland, France, Greece, Slovenia and the UK). However, where some types of domestic rules were lighter, they were often balanced by other, more stringent rules; for example, if domestic requirements for on-the-spot project checks were more limited, procedures relating to administrative checks and financial audits would be stricter. The result for many managing authorities was seen to be duplications and tensions between domestic and EU-level rules (e.g. in the Czech Republic, Denmark, Germany and Italy).

Some managing authorities argued that the need to respect both EU and domestic rules raised questions over the allocation of tasks between the EU level and the regional or national level. A number of interviewees noted frustrations due to the fact that, on the one hand, they have had to take on additional tasks in relation to financial control and audit but, on the other hand, they feel that their work is duplicated by the Commission and the European Court of Auditors. Some argued that further implementation tasks should be decentralised to Member State or regional levels, or that domestic financial control and audit systems should be used instead of EU-level rules (e.g. in the Czech Republic, Germany, Italy, Sweden and the UK).

In addition, some interviewees felt that the administrative burden associated with financial accountability raised questions over the net impact of Cohesion policy. They argued that the contribution of programmes to regional economic development was reduced by the heavy cost of administrative procedures and the duplication of tasks at EU and domestic levels. This was seen to imply that, unless responsibility for these tasks was transferred to Member State and regional authorities, there would be a need to rethink the rationale for EU intervention in support of regional development.

This survey suggests that those involved in programme management perceive an increase in workload relating to financial accountability in recent years and that this is reshaping the types of project funded and the capacity of Cohesion policy to stimulate new approaches. It also indicates that some managing authorities feel that these changes, combined with the obligation to respect both EU and domestic rules, raises questions over the allocation of responsibility between different government levels, as well as over the net economic impact of Cohesion policy.

7. DISCUSSION AND CONCLUSIONS

Like other governmental authorities in Europe and elsewhere, the EU has developed a stronger focus on financial accountability in recent years. Key changes in financial accountability in Cohesion policy since the late 1990s have been examined in this paper, with a particularly focus on the approach employed in 2007-13.

One important aspect of accountability identified in the literature relates to chains of accountability or 'who is held responsible to whom' (BOVENS, 2007; OLIVER, 1991; ROMZEK and INGRAHAM, 2000). A distinguishing feature of Cohesion and other EU policies is the multiplicity of actors involved and thus the complexity of accountability relationships. The paper has explored recent shifts in the formal allocation of responsibility, with the Treaty and Financial Regulation no longer awarding sole responsibility to the Commission for EU budget implementation but stipulating that responsibility is shared with the Member States. However, the increased level of prescription in Cohesion policy regulations in 2000-06 and 2007-13 means that Member State and regional authorities must implement financial accountability in accordance with detailed EU rules and that the associated workload has risen significantly. At the same time, the frequency and intensity of checks by the Commission and Court of Auditors has also increased.

A further important dimension concerns the instruments used to implement financial accountability (DEMKE et al., 2007; MULGAN, 2003). The paper has examined two EU mechanisms that are used to monitor financial flows and check on the misuse of funds. The data available from EU sources show that tighter procedures ensured the more timely absorption of EU funds in 2000-06 but that auditors continue to find significant levels of financial irregularities. EU authorities' interpretations of audit findings vary but there is agreement that one reason for high error levels is the complexity of Cohesion policy rules (DG REGIONAL POLICY, 2008a). Options under discussion include raising the acceptable error rate (CEC, 2008c; ECA, 2008), and reducing the complexity of rules (WOSTNER, 2008).

This paper has also examined potential tensions between financial accountability and other goals such as efficiency and effectiveness (cf. GREGORY, 2007; MULGAN, 2003). On the one hand, initial estimates suggest that the costs of administering Cohesion policy are significant in at least some Member States and regions, particularly if the costs to final beneficiaries are included (SWECO, 2009). Although these results remain tentative, they suggest the need to ensure that cost implications are fully assessed when financial accountability systems are being designed. On the other hand, interviews indicate that authorities responsible for regional and sectoral programmes are concerned that the increased workload associated with financial accountability in the 2000s is changing the kinds of project funded, and could affect the net impact of Cohesion policy. Interviews also indicate a degree of dissatisfaction with the current approach to financial accountability, due in part to the high level of responsibility at programme level combined with the obligation to conform to both EU and domestic rules, and the frequency of checks by EU authorities. These issues are playing an important part in debates within the EU institutions and Member States on the future of Cohesion policy (BARCA, 2009; BACHTLER et al., 2010).

Nevertheless, further studies are needed on a number of the issues addressed in this paper. In particular, research should be undertaken to provide stronger evidence on the costs of administering Cohesion policy, not only within regional and national authorities, but also in final beneficiaries and EU authorities. More research is also needed on the effects of financial control and audit on the misuse of funds and on error rates. In addition, better understanding is needed of how financial accountability mechanisms interact with other dimensions of accountability (e.g. performance and political accountability [Brinkerhoff, 2004]) and other values such as efficiency and effectiveness. One means of investigating these issues would be to undertake further interviews with staff in managing, certifying and audit authorities at regional and national levels, and also with EU authorities (not only the European Commission, but also the Council, the Court of Auditors and the Parliament) and, particularly, with the final beneficiaries of EU funding.

These issues are particularly interesting because EU bodies are not simply under the same pressures as other governmental authorities to enhance financial accountability, but are also involved in more complex sets of relationships and interactions, due to the multiple layers of agents and the networked forms of governance involved in EU policy-making. Thus the chains of responsibility, the instruments used to ensure accountability and the potential tensions with other policy goals are often more intricate than those seen in national or regional policy-making.

ENDNOTES

1. Cohesion policy incorporates funding for multi-annual regional and sectoral programmes financed by the Structural Funds (in 2007-13, the European Regional Development Fund and the European Social Fund) and, in poorer Member States, also large Cohesion Fund projects.

2. Managing authorities were interviewed in the following Member States: Austria, Belgium, the Czech Republic, Denmark, Finland, France, Germany, Greece, Italy, Poland, Portugal, Slovenia, Spain, Sweden and the United Kingdom.

3. In the case of the interviews with the national and regional authorities, the interviewers used a checklist of 55 questions which focused on the work of the managing authority (e.g. description of the management and control system, use of electronic data systems, and administrative and on-the-spot checks on projects), the certifying authority (e.g. checks undertaken to certify expenditure statements, the outsourcing of work, changes in procedures in 2007-13) and the audit authority (e.g. compliance assessment, audit strategy, and annual control report and opinion) and which also sought the interviewees' views of the specific regulatory changes introduced in 2007-13 and the effects of the Structural Funds' approach to financial control and audit. In the case of the interviews with European Commission staff, a checklist of 20 questions was used, which concentrated on the approach taken to financial control and audit (e.g. the Commission's tasks in 2007-13; the evolution of the Cohesion policy approach since the 1990s; steps taken to build audit capacity at EU level and in the Member States; and coordination between EU authorities), as well as on their views of the effects of the current system, and possible ways of improving financial control and audit in Cohesion policy.

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Table 1: Financial absorption of Structural Funds resources in 2000-06

	Total EU funding allocated to Objectives 1, 2 and 3 in 2000-06, in billion Euro	EU funds committed as a percentage of total allocations	EU funds paid out as a percentage of total allocations
2000	163.8	9.3	3.6
2001	186.9	27.0	11.0
2002	186.9	42.9	20.6
2003	188.1	58.4	32.4
2004	212.1	71.6	42.7
2005	212.2	94.3	56.0
2006	212.2	100.0	66.8
2007	212.1	100.0	85.0
2008	211.9	100.0	90.8
2009	224.6	100.0	91.9

Note: Funding allocations jump in 2001 when many programmes were formally adopted. Allocations jump again in 2004 due to the accession of 10 new Member States, and in 2008 due to the accession of Bulgaria and Romania.

Source: Authors' calculations based on CEC (2001, 2002, 2003, 2004, 2005, 2006b, 2007, 2008a, 2009a, 2009b)

Table 2: Financial irregularities found by the European Court of Auditors in Cohesion policy in 2006-08

	2006	2007	2008
Percentage of projects with no errors	31	46	57
Types of error found:			
Ineligible spending	16	17	22
Spending not incurred or not documented	7	4	0
Inaccurate calculations	6	7	7
Multiple errors	14	11	n/a
Non-compliance with EU rules	25	15	29
Total percentage of projects	100	100	100
Total number of projects audited	167	180	170

Notes: 1) The date refers to the financial year examined by the Court of Auditors' reports.

2) Figures may not sum to 100 percent due to rounding.

Source: Authors' calculations based on ECA (2007, 2008, 2009).

Table 3: DG Regional Policy's assessment of Member State management and control systems for the ERDF in 2000-06, as a percentage of annual payments

	2007	2008
Reasonable assurance	28.1	27.6
Qualified assurance with moderate impact	11.2	32.9
Qualified assurance with significant impact	47.7	34.6
Reasonable assurance with limitations		
No reasonable assurance	13.0	4.9
No opinion		
Reservation		
Total	100.0	100.0

Source: DG REGIONAL POLICY (2007, 2008a).