

Auditing European added value — a case study based on a joint audit of the Rail Baltica project



European Court of Auditors

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Source: European Commission

The more ambitious the project, the bigger the stakes. In the case of large infrastructure projects, there are often significant investments to be made. And once started, there seems to be no way back. All the more important, therefore, to assess costs and benefits upfront. In particular for cross-border infrastructure, there is also the aspect of European added value to evaluate. This was done by Urmet Lee, Director, and Jüri Kurss, Senior Advisor, both working in the National Audit Office of Estonia, with input from the audit teams from Latvia, Lithuania and Estonia, who actually conducted the joint audit project. The authors share their experiences of applying the EAV concept, *a posteriori*, to their joint audit.

By Jüri Kurss and Urmet Lee, National Audit Office of Estonia

EU added value: so obvious, but still elusive

The story of EU added value (EAV) is almost as old as is the European Union itself. It is in the vocabulary of friends and foes of the EU, of politicians and journalists alike, as it is in the minds of EU auditors assessing the impact of EU interventions.

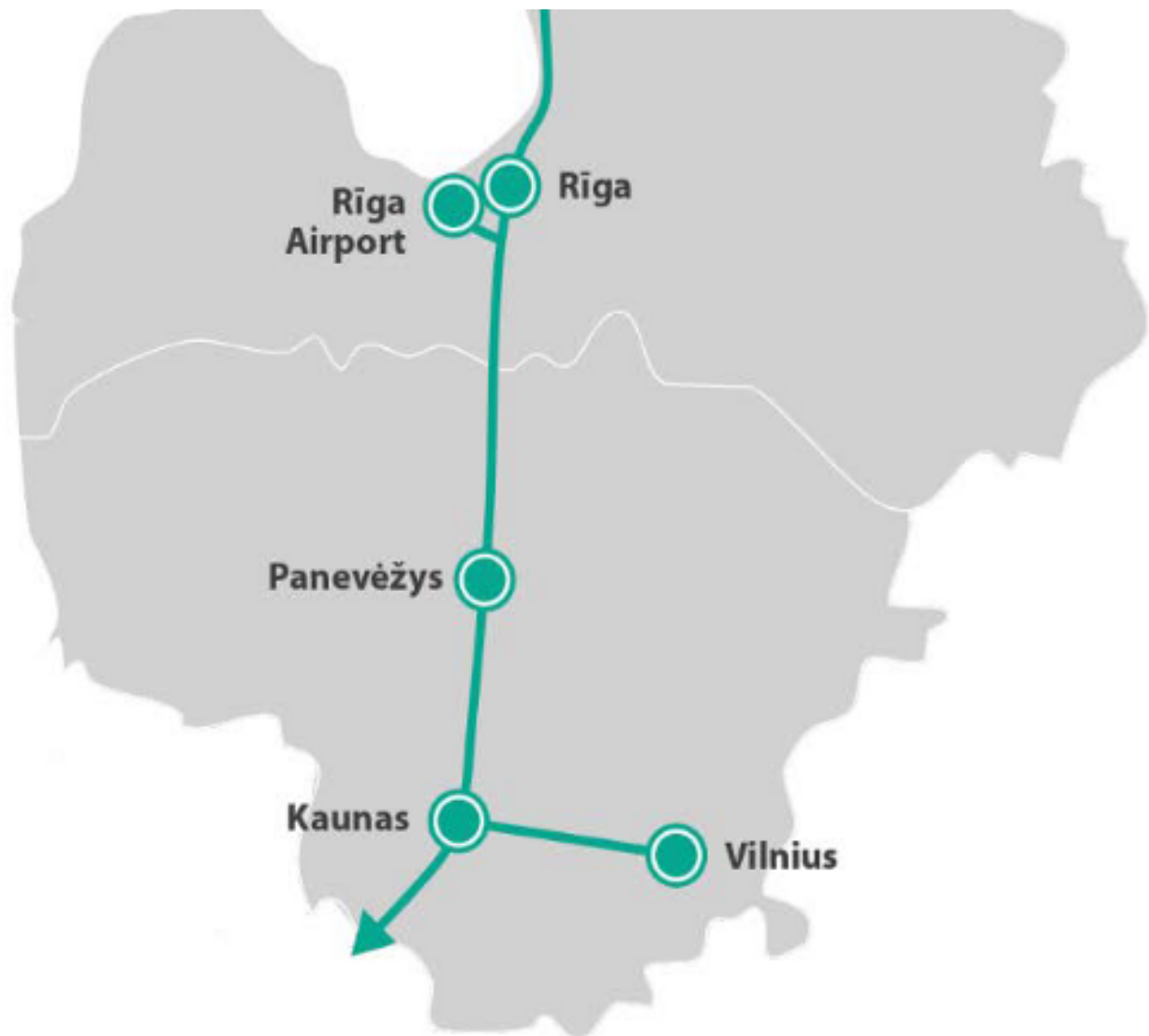
Our personal EAV story starts in September 2018 with the European Court of Auditors inviting the supreme audit institutions (SAIs) of Estonia, Denmark, the Netherlands and the United States of America to perform a peer review of the ECA's strategy for the period 2018–2020(1). One of the key issues the review team addressed was the ECA's conceptualisation of EAV and the difficulty in applying it for audit purposes. The ECA spent significant time formulating a relevant definition — a complex and challenging task — and finally concluded: 'European added value is the value that an EU action adds through EU policy, regulation, legal instruments and spending, over and above the value that is created by Member States acting alone.'

Although a good conceptual definition (which is why we use it in this sense hereafter, wherever we refer to it generally), the review team concluded that for audit purposes the concept of EAV requires further operationalisation, eventually for every audit programme, enabling the auditor to assess whether EU action has delivered added value in comparison to actions taken by Member States alone.

The joint audit of the Rail Baltica project — assessing EAV?

Since the early days of the Rail Baltica (RB) project — the planning phase started in 2011 — the SAIs of Estonia, Latvia and Lithuania have actively monitored their respective national perspectives. In 2014, the three Auditor Generals discussed the necessity for cooperation and information sharing and decided to widen the monitoring scope across the Baltic States. In 2016, this cooperation was formalised and the Rail Baltica Task Force (RBTF)(2) for coordinated monitoring and joint auditing of the RB project was established.





Source: Implementation of the Rail Baltica Project. Cooperative Audit Report by the SAI's of Estonia, Latvia and Lithuania, 2019

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In 2017, the RBTF decided to carry out a joint audit (in addition to three independent audits in every country) focusing on very practical aspects and high-risk areas, such as procurement or contract management within the RB project. So far the first and only joint audit focused on internal controls and funding in order to determine whether the

implementation system was set up efficiently and would work effectively, once procurement and contracts for big constructions had to be dealt with (3). Setting this audit focus was undoubtedly rooted in domestic concerns in the three Baltic states.

Neither at the beginning nor — as we learned later on from the three national audit team leaders — while carrying out the joint audit, was EAV — as a concept — a driver to start this exercise nor was it explicitly questioned or tested. Is there a good reason for this, given that — from a national perspective — the extent of EU co-financing already and — from an EU perspective — the cross-border nature of the project clearly indicate that EAV could be at stake?

European added value is everywhere

One reason for not addressing EAV at national level is that such big EU investments in large-scale infrastructure projects — like the RB project — inherently create an added value for Member States, as they trigger economic growth and generate employment across the economy. For domestic purposes, this is enough and does not, therefore, need to be demonstrated. From an EU point of view, this may be different, since — at least theoretically — the money could have been better spent on other projects offering better value for the Union as a whole or was simply misspent in terms of EAV (in its various forms). For that matter, EAV should not be an end in itself and limited to only economic gain, but can consist in or be a result of cooperation and cohesion between the Member States, which in turn could foster trust in the EU and lead to further cooperation and cohesion, leading possibly to economic growth and other results, etc.

That said, what does it mean for auditing EAV? Assessing such infrastructure projects may require us to study the ‘creation’ or ‘realisation’ of EAV in a given project, e.g. by examining whether planned and implemented actions at Member State and / or EU level are or have been carried out in the best way to achieve the desired outcome. Or whether any other EU and / or national interventions would have been needed.

Seeking for EAV in the Rail Baltic project: survey among the three Baltic SAs

For the purpose of this article, we decided to look into the question of whether the information gathered and the findings determined in the course of the joint audit of the RB project would allow identification of the extent to which EAV has been /is being created or (possibly even unintentionally) jeopardised. In order to do so, we conducted a small case study and carried out a set of written interviews in August 2020 with the

RBTF audit team leaders of the three Baltic SAIs. The interviews focused on three key aspects in the implementation process of the RB project:

- acceptance of the project and manifestation of the benefits at national level;
- funding stability;
- cooperation between the three Baltic Member States and the EU institutions involved.

In our view, these three aspects together are crucial elements for succesful implementation and actually form a set of criteria that allows an understanding of whether the potential EAV of the RB project was realised or not. For us this was the most logical way to approach this issue.

Overall, the basic concept of EAV is too abstract for direct use in audit activities, and the audit teams involved in the audit of the RB project neither thought or operated in the context of the concept of EAV. However, all agreed on the relevance of the three aspects to addressing the question of EAV. Below we briefly present the observations and our concluding remarks on each of these three aspects and draw some conclusions (see Table 1).

Table 1 — Key aspects of the implementation process of the RB project

2. Funding stability		
<ul style="list-style-type: none">• <i>Funding stability of the RB project – could the lack of EU funding guarantees jeopardise the project and, thus, the creation of EAV?</i>	<ul style="list-style-type: none">• Both the Baltic states and the EU have understood that an unfinished project would be a complete failure, as it would not only be non-functional, but also a waste of funds and a total loss in terms of EAV.• Thus, funding stability is a key condition for successfully implementing and finalising the project. However, there are no EU funds earmarked for the project in the EU budget. Moreover, potential funding appropriations are spread over multiple Financial Frameworks, requiring project implementers to apply for Connecting Europe Facility transport calls when funding is needed.• The financing risk of this project is very palpable and has been highlighted in the joint audit report.	<ul style="list-style-type: none">• From an EAV point of view, a clear long-term commitment securing the necessary funding for the project may be preferable.• On the other hand, the process of public fund allocation is political in nature both at EU and Member State level.• Nevertheless, until now the present outcome with regard to funding stability seems to be accepted.• The EU in general and the Commission in particular have demonstrated a positive attitude in terms of co-financing and technical support. This is evidenced, for instance, by the regular participation of key officials in the Rail Baltica Global Forum and their commitment to supporting the project.• That said, as the cost of the project rises, the EU will inevitably seek to get the implementing countries to contribute as much as possible, but within the limits of their capabilities, to successfully

3. Cooperation between the three Baltic Member States and the EU institutions involved		
<ul style="list-style-type: none"> Cooperation between all parties involved – did the Commission facilitate and foster cooperation? 	<ul style="list-style-type: none"> The joint audit has shown that there are differences and different understandings between the three implementing countries at operational level with regard to project realisation. In practice, the EU represented by the Commission was not only left with the role of decision-maker and enforcer, but also acted as a mediator. For instance, when the national counterparts could not agree on the appropriate model of infrastructure management, the Commission issued an Implementing Decision (2018) which set the date for deciding on this issue. At the same time, the Commission never overstated its budgetary contributions to overrule its partners in the three Member States when engaging in conflict resolution, but respected the fact that the RB project represents a heavy burden on the national budgets. 	<ul style="list-style-type: none"> The Commission acted as a facilitator and helped to solve problems arising, which so far has helped to move project implementation on.

How can EU SAs contribute to creating EAV?

In view of the heavy audit burden (4) on the RB project and the overall critical assessment of the project preparation and implementation in all audit reports, one could take a sceptical perspective and argue that auditing is rather contributing to decreasing the trust in EAV creation, and in doing so possibly also jeopardising cooperation and reducing the chances of a successful finalisation of the RB project. However, factually there is no evidence to support this. Instead, a clear, objective and unbiased presentation of problems and unmitigated risks provides all participants of the RB project with a better understanding of what needs to be improved, while simultaneously setting the focus for improvements in project management. Hence we conclude that an objective outsider's look at the issues at stake (e.g. via audits) is rather supportive and necessary for the realisation of EAV in EU projects, since it increases the likelihood of better implementation and identifies issues, thus helping to achieve more fruitful cooperation.

Takeaways for the auditor regarding European added value

While EAV may be a good argument for EU action and funding, it can be rather challenging to translate it into concrete audit criteria to arrive at clear and conclusive audit conclusions on the issue as such. Our observations, based on our EAV ex-post review related to the RB project at Member State level, are:

in general, the concept of EAV is too broad, abstract and non-self-explanatory for daily use in auditing;

- if EAV is meant to be addressed within an audit, it needs to be operationalised by giving it certain unique characteristics relevant to the subject matter being audited;
- these characteristics serve as a set of criteria for assessment of whether the objective of delivering EAV was promoted and eventually achieved or not.
- Although some debatable issues and risks remain, we come to the perhaps obvious conclusion that the proof of the pudding is in the eating: the likelihood of creating EAV is greatest once the particular project is finalised. This has been the underlying assumption of the joint audit team as well.

Preliminary observations indicate that thus far none of the implementing parties of the RB project have initiated actions that would ‘fatally’ harm any of the EVA aspects we choose to assess in our case study. But it does not mean that it cannot happen in the next stages of the project. Through their assessment and by expressing their fair opinion, public auditors can contribute to minimising those risks. Also, focusing in audits on relevant EAV aspects will further increase performance audits’ impact and relevance for all the stakeholders and contribute to the implementation of the project under evaluation.

(1) The peer review report was published in March 2020.

(2) The Rail Baltica Taks Force consists of representatives from the Supreme Audit Institutions of Estonia, Latvia and Lithuania, as well as Finland and Poland.

(3) Implementation of the Rail Baltica Project. Cooperative Audit by the SAI’s of Estonia, Latvia and Lithuania, 2019

(4) The ECA recently conducted an audit in addition to the joint audit and regular financial audits also ECA conducted a recent audit, see ECA special report 10/2020: EU transport infrastructures: more speed needed in megaproject implementation to deliver network effects on time

