# 2006 discharge: 6th, 7th, 8th and 9th European Development Funds (EDF)

2007/2064(DEC) - 31/10/2007 - Court of Auditors: opinion, report

PURPOSE: to present the report by the Court of Auditors on the 2006 accounts of the implementation of the 6th, 7th, 8th and 9th EDFs (European Development Fund).

CONTENT: The Court of Auditors has published its 30th annual report. In this context, it examined the accounts of the 6th, 7th, 8th and 9th EDFs, as well as underlying transactions for the 2006 financial year. These accounts comprise the financial statements, the reports on financial implementation, and the financial statements and information supplied by the European Investment Bank (EIB).

**Financial implementation:** in 2006, as in previous years, the EDFs were implemented simultaneously. Although they are committed over a period of 5 years, there is no time limit for payments. 21 years after the sixth EDF came into force, the Authorising Officer of the EDF decided to close the Fund on 31 July 2006. At closure, EUR 7 339 million had been paid, i.e. 99.3 % of the EUR 7 391 million allocated to projects. The remaining balance of EUR 52 million was transferred to the ninth EDF.

**Some examples of financial implementation for 2006**:

- **individual commitments** : EUR 3 073 million (after deductions of cancellations), compared with EUR 2 652 million in 2005;
- **net payments**: EUR 2 762 million, in comparison with EUR 2 489 million the year before;
- **rate of disbursements** (measured as net payments in relation to new financial commitments): 102 %, compared with 82 % in 2006;
- **unspent commitments**: stable at EUR 10 300 million, or 25 % of total funds committed;
- **sectoral payments**: i) education, health, water and basic sanitation: EUR 836 million in 2006, i.e. 29 % of the total expenditure; ii) transport, communication, energy: EUR 663 million (23 %) in 2006;
- **direct non-targeted budget aid and sector policy support programmes:** EUR 638 million (23 % of the total).

The Court recalls that the **Stabex instrument is** in the process of being phased out and that the **10th EDF** should be approved in the near future**.** The amount of Community aid via the 10th EDF has been set for the period 2008 to 2013 at EUR 21 966 million. This represents a 62 % increase compared with the financial allocations of the ninth EDF. The possibility of delays to the ratification of the tenth EDF and the adoption of the applicable financial regulation beyond the deadline of 1 January 2008 would (according to the Court and the Commission) entail a major risk of late approval of new operations in ACP States, which could affect the continuity of EDF-funded activities.

**Statement of assurance:** pursuant to the financial regulations, the Court is required to provide the European Parliament and the Council with a Statement of Assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions in respect of the part of the EDF resources for whose financial management the Commission is responsible. The Court made the following statement:

1. **Reliability of the accounts:** the Court is of the opinion that the reports on financial implementation for the financial year 2006 and the financial statements at 31 December 2006 reliably reflect the revenue and expenditure of the EDFs. Without qualifying the above opinion, the Court draws attention to certain shortcomings. It indicates that the validity of the assumptions used for the estimate of the provision for invoices to be received has not been demonstrated by the Commission and that there is an overstatement of the amount of guarantees disclosed in the notes to the financial statements.
2. **Legality and regularity of the underlying transactions**: in view of the results of its audit, the Court is of the opinion that the transactions underlying the revenue, allocations, commitments and payments for the financial year are, taken as a whole, legal and regular, with the exception of authorised payments in the ACP States which are the responsibility of the Commission's delegations in the countries in question. The Court is of the opinion that the decisions taken by the Commission to allocate budgetary assistance (25% of the aid allocated under the EDF and injected directly into the budgets of ACP States and verified by the latter) should be documented in a more formal and structured manner to ensure there is compliance with the Cotonou Agreement (on which the EDF is based). The Court highlights:
    - that payments authorised by the central services of the Commission (mainly EuropeAid) were legal and regular. However, the audit of payments in the ACP countries revealed a material incidence of errors affecting underlying transactions authorised by Delegations. These related to the eligibility of expenses, the calculation of their value, as well as shortcomings in regard to supporting documentation;
    - a certain number of recurring errors that may have an impact on the amount of the underlying transactions, although this could not be precisely determined.
3. **Supervisory and control systems:** according to the Court's standardised evaluation criteria partly satisfactory. Certain systems, in particular those of the Commission's delegations in the ACP States, however, need to be improved and an overall strategy needs to be introduced in order to guarantee more efficient and effective implementation of these systems.

**Recommendation of the Court:** the Court considers that the Commission should continue to improve the design and implementation of control systems, in particular by means of an effective control strategy. The management of projects financed by work programmes should be better supported and follow-up improved. The controls undertaken by the delegations need to be improved and better monitored. The quality of the controls performed by external auditors should be enhanced by ensuring that the new terms of reference include a clear definition of the purpose of the audit and follow-up at central level. The procedures relating to the approval and the follow-up of budget support need to be improved.