2007 discharge: 7th, 8th and 9th European Development Funds EDF

2008/2109(DEC) - 10/11/2008 - Court of Auditors: opinion, report

PURPOSE: to present the report of the Court of Auditors on the implementation of the 2007 budget of the 7th, 8th and 9th European Development Funds (EDFs).

CONTENT: the Court of Auditors has published its 31st annual report. In this context, it examined the accounts of the 7th, 8th and 9th EDFS as well as the underlying transactions for the financial year ending 31 December 2007. These accounts comprise the financial statements, the reports on financial implementation, and the financial statements and information supplied by the European Investment Bank (EIB).

Overall financial implementation: the EDFs are the result of international conventions or agreements between the Community and its Member States, on the one hand, and certain African, Caribbean and Pacific (ACP) States, on the other, and of Council Decisions on the association of overseas countries and territories (OCT). The Commission manages most of the expenditure in association with ACP countries, partly through EuropeAid and partly through Delegations in the recipient countries.

Roughly a third of expenditure in 2007 was on social infrastructure, including education, health, water and basic sanitation. A similar proportion of spending was directed to the transport, communication and energy sector.

Commodity and food aid and general programme assistance also presented a substantial part of spending, most of it as budget support programmes.

About a tenth of total aid payments in 2007 were implemented in close cooperation with UN organisations and the World Bank.

Financial implementation in figures for the financial year 2007:

- **financial commitments**: EUR 3.172 billion (compared to EUR 2.719 billion in 2006);
- **implementation rate**: 99.9%;
- **individual legal commitments**: EUR 3.347 billion (compared to EUR 3.073 billion in 2006);
- **payments**: EUR 2.874 billion (compared to EUR 2.762 billion in 2006);
- **outstanding payments** (financial commitments minus payments): overall amount: EUR 10.579 billion (i.e. 28.3%).

Statement of Assurance: 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.

Therefore, the Court makes the following observations:

1. **Reliability of the accounts**: the Court concludes that the 2007 accounts of the EDFs present fairly, in all material aspects, the financial position of the EDFs. Without qualifying this opinion, the Court draws attention to certain weaknesses: there is an overstatement of guarantees, representing about

4% of their total value; the majority of the liabilities (83%) are based on statistical estimates, the validity of which has not been demonstrated, which may lead to an understatement of accrued expenditure;

2. **Legality and regularity of the underlying transactions**: the Court concludes that the transactions of the EDFs, except for those underlying payments, are free from material error. Its assessment of the supervisory and control systems for the EDFs is that they are partially effective. The Court concludes that the transactions underlying the revenue and commitments of the EDFs are free from material error, except for the effects of several cases of errors in project commitments and of several cases of incomplete or unclear provisions of financing agreements for budget support. The Court also draws attention to the high fiduciary risk of budget support programmes being launched in countries that do not already meet a minimum standard of public finance management.

The Court's recommendations: the Court gives a number of recommendations to improve EuropeAid's design and/or implementation of control systems, including further developing its control strategy, improving the processing of audit information and better supporting the management of implementing organisations. A review should also be carried out to assess whether EuropeAid's central services and the Delegations have the level and type of human resources required to ensure the quality of controls. For budget support, the Court recommends that compliance with the Cotonou Agreement, before budget support is granted, be benchmarked against minimum requirements, such as the availability of timely published and audited accounts. The Court also gives a number of other recommendations regarding performance indicators, well structured conclusions, clear and complete assessments and high quality financing agreements.