2008 discharge: 7th, 8th, 9th and 10th European Development Funds EDF

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PURPOSE: to present the report of the Court of Auditors on the implementation of the 2008 budget of the 7th, 8th, 9th and 10th European Development Funds (EDFs).

CONTENT: the Court of Auditors has published its 32nd annual report. In this context, it examined the accounts of the 7th, 8th, 9th and 10th EDFs as well as the underlying transactions for the financial year ending 31 December 2008. 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. A small proportion of the EDF projects relates to humanitarian aid and is managed by the Directorate-General for Humanitarian Aid (DG ECHO). The EDF's investment facility has been fully managed by the European Investment Bank (EIB) since 1 April 2003. This facility is not covered by the Court's Statement of Assurance or the European Parliament's discharge procedure.

2008 financial implementation: in 2008, the financial implementation forecasts set by the Commission for global commitments, individual commitments and payments were all exceeded, reaching record levels for global commitments (EUR 4 723 million), individual commitments (EUR 2 649 million) and net payments (EUR 3 143 million). This is partly explained by the fact that the implementation of the 10th EDF got off to a quick start, and by the strong increase in budget support operations, with global commitments and payments reaching EUR 2 583 million and EUR 606 million respectively. Outstanding payments increased by 15%, which is reasonable, given the record level of commitments reached during the year. At the same time, old and dormant outstanding payments decreased by 33%.

In 2008, **the 7th, 8th, 9th and 10th EDFs were implemented simultaneously**. The Authorising Officer of the EDF closed the 7th EDF on 31 August 2008. At closure EUR 10 381 million had been paid (98.3% of the EUR 10 559 million allocated to aid measures). The balance of EUR 178 million was transferred to the 9th EDF.

In the interests of sound financial management of the EDF, the Commission has continued its efforts to wind down old projects. The 10th EDF covering the period from 2008 to 2013 and providing for Community aid of EUR 22 682 million entered into force on 1 July 2008. Of this amount, EUR 21 966 million is allocated to the ACP countries, EUR 286 million to the OCTs. These amounts include EUR 1 500 million and EUR 30 million to the Investment Facility managed by the EIB for the ACP countries and OCTs respectively. Lastly, EUR 430 million are foreseen for the Commission’s expenditure for programming and implementation of the EDF.

Detailed recapitulative:

- **cumulative resources**: (4 EDFs – situation at the end of the financial year: EUR 48 768 million (compared to EUR 37 329 million in 2007).

- **financial commitments in 2008**: EUR 4 723 million

- **individual legal commitments**: EUR 2 649 million

- **net payments**: EUR 3 143 million

- **outstanding payments** (financial commitments minus net payments for all EDFs): EUR 12 159 million (that is 25%).

EDF – resources at 31.12.2008:

- 7th EDF: EUR 0, closed during the financial year

- 8th EDF: EUR 10 786 million (fully committed at 31.12.2008)

- 9th EDF: EUR 16 632 million (fully committed at 31.12.2008)

- 10 EDF: EUR 21 260 million (EUR 4 766 million committed at the end of the financial year).

Total committed at 31.12.2008: EUR 32 184 (a cumulated implementation rate of 66.1% for all the EDFs.

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.

The Court makes the following observations:

1. **Reliability of the accounts**: the Court concludes that the 2008 accounts of the EDFs present fairly, in all material aspects, the financial position of the EDFs. Without qualifying the opinion, the Court draws attention to the fact that the method used to estimate the provision for costs incurred is not valid for certain types of contracts and to the Commission's decision to refine it from the financial year 2009 onward.
2. **Legality and regularity of the underlying transactions**: in the Court's opinion the revenue and commitments of the seventh, 8th, 9th and 10th European Development Funds for the year ended 31 December 2008 were free from material error. The Court did not obtain all the necessary information and documentation concerning 10 transactions managed by international organisations. The Court is therefore not in a position to express an opinion on the regularity of these transactions. Therefore, the Court is unable to express an opinion on the regularity of expenditure amounting to EUR 190 million, i.e. 6.7% of the annual expenditure. The Court's audit revealed a material level of error affecting the amount of the payments audited.
3. **Control systems**: the Court has identified significant improvements in the Commission's supervisory and control systems. The Court notes that there is scope for clearer conclusions as to how the results of various controls contribute to the Director-General's assurance and for improving the design and/or implementation of certain systems. The Court also draws attention to the need for the Commission to pursue its efforts to substantiate its decisions on the eligibility of budget support.

Based on its audit work, the Court concludes that the supervisory and control systems of EuropeAid are **partially effective** in ensuring the regularity of payments.

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. Ex-ante checks should be improved by focusing more on key risks. Annual audit plans should be prepared on the basis of more structured risk analysis and more realistic assessment of the resources available for the purpose. The implementation of annual audit plans should be closely monitored throughout the year in order to detect significant deviations and take corrective action in a timely manner.

EuropeAid should ensure that the Delegations record data in the audit management information system in a comprehensive and timely manner.

Budgetary support: EuropeAid should pursue its efforts to support its decisions on the eligibility of budget support with a structured and formalised demonstration that the recipent country has a **relevant reform programme** to address all significant weaknesses over a foreseeable timetable and that there is commitment on the country's part to implement it.

Lastly, EuropeAid should ensure that all future financing agreements provide a comprehensive and clear basis for the assessment of compliance with payment conditions.