2011 discharge: 8th, 9th and 10th European Development Funds (EDF)

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OBJECTIVE: presentation of the 2011 Annual Report of the Court of Auditors on the activities funded by the 8th, 9th and 10th European Development Funds (EDF).

CONTENT: in accordance with the tasks and objectives conferred on the Court of Auditors by the Treaty on the Functioning of the European Union, it provides under the discharge procedure, for both the European Parliament and Council, a statement of assurance ("DAS") about the reliability of the accounts and the legality and regularity of the transactions of each institution, body or agency of the EU, based on an independent external audit.

The audit also focuses on the budget implementation of the EDF. To recall, the EDF is the main instrument for providing European Union aid for development cooperation to the African, Caribbean and Pacific (ACP) States as well as the Overseas Countries and Territories (OCTs), on the basis of the Cotonou Agreement of 2000. It is centred on the objective of reducing and eventually eradicating poverty, consistent with the objectives of sustainable development and the gradual integration of the ACP countries and OCTs in the world economy.

It is based on three complementary pillars:

- development cooperation;
- economic and trade cooperation;
- the political dimension.

The EDFs are funded by the Member States; they are governed by their own financial regulations and managed outside the framework of the EU general budget. The European Commission is responsible for the financial implementation of operations funded with resources from the EDFs.

The key conclusions of the Court are given in a "Statement of Assurance" (DAS) the main elements of which can be summarised as follows:

Statement of assurance:

- **Reliability of the accounts:** the Court found that the accounts of the EDFs for the financial year ended on 31 December 2011 fairly present, in all material respects, the financial position of the EDFs and the results of their operations and cash flows, in accordance with the provisions of the respective Financial Regulations and the relevant accounting rules adopted by the accounting officer.
- **Legality and regularity of the transactions underlying the accounts:** on the basis of its audit, in the Court's opinion, revenue underlying the accounts for the 2011 financial year is legal and regular in all material respects. However, the external aid financed by the EDFs and the general budget is implemented in a high risk environment, notably due to **geographically dispersed activities**, whilst many partner countries have weak institutional and administrative capacities. The types of quantifiable errors found in EDF payments concerned **eligibility** (for example, expenditure incurred outside the implementation period or related to activities and services not included in the contract, non-compliance with the rules of origin or nationality, non-compliance with procurement procedures by the beneficiary.

- **The question of payments:** the Court's report indicates that the payments are materially affected by error. The Court's estimate for the most likely error rate for payments from the 8th, 9th and 10th EDFs is 5.1 %. For the transactions related to projects, the majority of the errors were found in **grants and contribution agreements** with international organisations.
- **Control systems:** the Court found weaknesses in the *ex ante* checks, as well as in the functioning and monitoring of external audit at the level of delegations. It also notes that the quality of the external aid management information system (CRIS) data remains a source of concern and that the internal audit structure of EuropeAid was able to implement only about half of its initial annual work plan.

Recommendations of the Court: the Court evaluated the follow-up to its previous recommendations. The Commission has made significant progress in implementing many of the Court's recommendations. This is notably the case in relation to the **dissemination of the financial management toolkit** to improve the beneficiaries' knowledge of eligibility rules, the planning and monitoring of audits and the assessment of eligibility for budget support.

However, further efforts are necessary to fully implement the Court's recommendations concerning the quality of CRIS data, the follow-up of audit findings and recommendations and the assessment of the cost-effectiveness of the transactional *ex- post* control system.

Following this review and the findings and conclusions for 2011, t**he Court recommends that EuropeAid:**

- improve the management of contract awarding procedures, by setting out clear selection criteria and better documenting the evaluation process;
- introduce documented risk-based planning and systematic follow-up for verification visits and on-the-spot monitoring visits;
- render compulsory the guidelines on risk analysis for the preparation of annual audit plans by delegations and EuropeAid's headquarters;
- review the design of Key Performance Indicators (KPIs) to ensure that they are unambiguous and easy to interpret;
- assess the Internal Audit Capability (IAC)'s capacity to perform its task effectively.

The report also contains a table establishing the totals for the execution of the EDF budget for 2011:

In particular, the report confirms the following amounts:

- cumulative EDF resources: EUR 48.854 billion;
- global commitments: EUR 40.827 billion, 83.6% implementation rate;
- individual commitments: EUR 34.83 billion, 71.3% implementation rate;
- net payments: EUR 29.208 billion, 59.8% implementation rate;
- payments still outstanding: EUR 11.619 billion;
- available balance: EUR 8.027 billion.