2012 discharge: 8th, 9th and 10th European Development Funds

2013/2206(DEC) - 05/09/2013 - Court of Auditors: opinion, report

PURPOSE: presentation of the 2012 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 the annual accounts of the 8th, 9th and 10th EDFs for the year ended 31 December 2012 present fairly, in all material respects, the financial position as at 31 December 2012, the results of their operations, their cash flows and the changes in net assets for the year then ended, in accordance with the EDF Financial Regulation and with internationally accepted accounting standards for the public sector.

Legality and regularity of the transactions underlying the accounts: on the basis of its audit, in the Court's opinion, **commitments** underlying the accounts for the year ended 31 December 2012 are legal and regular in all material respects. However, the Court states that the **supervisory and control systems are partially effective** in ensuring the legality and regularity of **payments** underlying the accounts. The Court's estimate for the most likely error rate for expenditure transactions from the eighth, ninth and 10th EDFs is **3%**.

Type of errors identified: according to the Court, the types of errors affecting transactions relating to projects financed by the EDF concerned **eligibility.** Addition errors included those relating to activities not covered by the contract, non-compliance by the beneficiary with procurement procedures, and expenditure incurred outside the implementation period or exceeding budget set.

The Court also identified non-quantifiable errors: the Commission failed to demonstrate satisfactorily that recipients had complied with the general eligibility conditions for **budget support** payments.

Errors were also noted as regards **EU contributions to multi-donor projects carried out by international organisations such as the UN**.

Budget support: budget support is paid in support of a state's general budget or its budget for a specific policy or objective. The Court examines whether the Commission has respected the specific conditions for making budget support payments to the partner country concerned and has demonstrated that general eligibility conditions (such as progress in public sector financial management) have been complied with. However the Commission has considerable flexibility in deciding whether these general conditions have been met. **The Court's audit of regularity cannot go beyond the stage at which aid is paid to a partner country**. The funds transferred are then merged with the recipient country's budget resources.

EUROPAID: the EDFs are managed almost entirely by the Commission's Directorate-General for Development and Cooperation (EuropeAid), which also manages a wide range of expenditure from the EU budget. As in previous years, the Court frequently identified transactions that had been incorrectly recorded. A study carried out by EuropeAid in 2012 also found that the transactions were frequently recorded incorrectly in the Common RELEX Information System (CRIS).

While the Court did not find any material errors in this connection for the reliability of the accounts, these mistakes remain a source of concern as they affects the accuracy of the data used for the preparation of the annual accounts, in particular with respect to the cut-off exercise at the end of the year.

Recommendations of the Court: as a solution to the above-mentioned issues, the ECA recommends that the Commission:

- ensures the timely clearance of expenditure;
- promotes better document management by implementing partners and beneficiaries;
- takes effective measures in order to enhance the quality of expenditure verifications carried out by external auditors;
- ensures the correct application of specific conditions for budget support payments; and
- makes sure that recovery orders in respect of interest on pre-financing over EUR 750 000 are issued annually.

The report also contains a table establishing the totals for the **execution of the EDF budget** for 2012:

In particular, the report confirms the following amounts:

- cumulative EDF resources: EUR 48.920 billion;
- global commitments: EUR 43.991 billion, 89.9% implementation rate;
- individual commitments: EUR 35.059 billion, 77.8% implementation rate;
- net payments: EUR 32.417 billion, 66.3% implementation rate;
- payments still outstanding: EUR 11.574 billion, 23.7% implementation rate;
- available balance: EUR 4.929 billion, 10.1% implementation rate.