

2015 discharge: 8th, 9th, 10th and 11th European Development Funds (EDFs)

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PURPOSE: presentation of the 2015 report from the Court of Auditors of the European Union on the activities funded by the 8th, 9th, 10th and 11th European Development Funds (EDFs).

BACKGROUND: the EDFs provide European Union assistance for development cooperation to the African, Caribbean and Pacific (ACP) states and overseas countries and territories (OCTs). EDF spending and cooperation instruments aim to overcome poverty, and to promote sustainable development and the integration of ACP countries and OCTs in the world economy.

The EDFs are funded by the EU's Member States and are implemented either through individual projects or by providing budget support (a contribution to a country's general budget for a specific policy or objective).

Each EDF is governed by its own financial regulation.

CONTENT: external aid financed by the EDFs is implemented in a high risk environment, notably due to the geographically dispersed activities and weak institutional and administrative capacity in partner countries. They are managed outside the framework of the EU budget by the European Commission and, for some assistance, by the European Investment Bank (EIB).

Discharge procedure: due to the intergovernmental nature of the EDFs, the European Parliament has a more limited role in their functioning than that it exercises for the development cooperation instruments financed by the EU general budget: notably, it does not intervene in the establishment and allocation of EDF resources. However, the European Parliament is the discharge authority, except for the Investment Facility managed by the EIB.

The audited amount in the framework of the EDF was **EUR 3.1 billion**.

The Court's main conclusions are set out in a 'Statement of Assurance' of which the main elements may be summarised as follows:

Statement of assurance:

Reliability of the accounts: the Court stated that the consolidated accounts of the European Union for the year ended 31 December 2015 present fairly, in all material respects, the financial position of the Union as at 31 December 2015, the results of its operations, its cash flows, and the changes in net assets for the year then ended, in accordance with the Financial Regulation and with accounting rules based on internationally accepted accounting standards for the public sector.

Regularity of the transactions underlying the accounts (revenue): revenue underlying the accounts for the year ended 31 December 2015 is legal and regular in all material respects.

Legality and regularity of payments underlying the accounts: based on the audit, the Court estimated that the most likely error rate for expenditure transactions from the 8th, 9th, 10th and 11th EDFs is 3.8%. The Court gave an **adverse opinion on the legality and regularity of payments underlying the accounts**.

Nature of errors found: EDF expenditure on budget support and in multi-donor actions carried out by international organisations is significantly less prone to error than other EDF payments. However, this is linked to the nature of funding and the considerable flexibility that the Commission can apply when deciding whether the general conditions have been met.

Overall, as in previous years, the level of error found in EDF expenditure — including in some final claims which had been subject to expenditure verifications and external audits — point to **weaknesses in the *ex ante* checks**. Errors due to the absence of supporting documents to justify expenditure and non-compliance with procurement rules (see examples) were the cause of more than two-thirds of the estimated level of error.

Overall, if all the information had been used by the Commission to correct errors it committed itself or made by the beneficiaries for projects financed by the EDFs, the estimated level of error would have been 1.7 percentage points lower.

Procurement and supporting documents: the Court audited the procurement of agricultural product testing laboratory equipment in Ethiopia and found that the contract was awarded directly to a company without following the required competitive tendering procedure. In addition, the selected company was acting only as an intermediary and was not the authorised distributor of the procured equipment.

It also examined the expenditure on laboratory, information technology and office equipment in Mozambique that was financed by an EDF project. For four of the ten sampled payments, we were not provided with sufficient supporting documentation for the procurement and delivery of these items.

Corrective measures: the Commission's Directorate-General for International Cooperation and Development, which manages almost all of the spending under the EDFs, adopted a new action plan in 2015 to address weaknesses in its control system. It is too early for us to assess progress on these actions. We also found that the previous action plan, adopted in 2013, has been mostly implemented, with 19 actions concluded and the remaining four being underway at the end of 2015.

Court's recommendations: to remedy the elements mentioned above, the Court recommended that the Commission:

- expand the use of the quality grid to audits and expenditure verifications contracted directly by beneficiaries;
- adapt the terms of reference of audits and expenditure verifications with a view to obtaining all relevant information on the actual work done that is necessary to assess their quality using the new quality grid;
- assess the costs and benefits of improving the monitoring of audits and expenditure verifications contracted directly by beneficiaries by including them in the new audit application;
- apply appropriate sanctions to entities that do not comply with their obligation to provide essential supporting documentation for the Court's audit;
- for payments under indirect management with beneficiary countries, (i) support the declaration of assurance with the statistically most reliable evidence available, and (ii) distinguish between forms of aid with different risk profiles, as is done for payments under direct management; and
- revise the estimate of its future corrective capacity by excluding from the calculation (i) recoveries of unspent prefinancing and earned interest, and (ii) cancellations of recovery orders previously issued.

Overall, the Commission accepted the recommendations and stated that it shall improve its assessment of risk and level of error for expenditure involving indirect management with beneficiary countries.