

2016 discharge: 8th, 9th, 10th and 11th European Development Funds (EDFs)

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PURPOSE: presentation of the annual 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) concerning the financial year 2016.

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

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

Each EDF is governed by its own financial regulation.

EDFs are managed outside the framework of the EU budget by the European Commission and, for some aid, by the European Investment Bank.

EDF discharge procedure: due to the intergovernmental nature of the EDFs, the European Parliament exercises a more limited role in their functioning than it does for the development cooperation instruments financed by the EU general budget; notably, it is not involved in establishing and allocating EDF resources. However, the **European Parliament is still the discharge authority**, except for the Investment Facility, which is managed by the EIB and therefore outside the scope of the audit.

For 2016, expenditure subject to audit in this area was **EUR 2.8 billion**.

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

Reliability of the EDF accounts: the Court concludes that the 2016 accounts present fairly the financial situation of the EDFs, the results of their operations, their cash flows, as well as the change in net assets.

Overall, the information collected indicates that for the year ended 31 December, 2016:

EDF **revenue** transactions did not contain a material level of error;

EDF **payments** were affected by a significant level of **error** estimated at **3.3 %** (compared to 3.3 % in 2015). The Court therefore gave an adverse opinion on the legality and regularity of payments underlying the accounts.

Examples of errors: non-compliance with **procurement** rules accounted for around one-third of the overall error in the EDFs. The Court also examined payments for advisory services on trade matters. It found that the contracts underlying these payments had not been awarded following a competitive selection procedure, as required by the grant agreement. Other important types of error include **expenditure that either has not been incurred or is ineligible**.

In two cases of quantifiable error, the Commission had sufficient information to prevent, or to detect and correct, the error before accepting the expenditure. Had the Commission made proper use of all the information at its disposal, the estimated level of error for this chapter would have been 0.7 % lower.

DG International Cooperation and Development (DEVCO)’s efforts to improve the implementation of its control system: the Court noted that DG DEVCO’s control system is centred around *ex ante* checks conducted before the expenditure claimed by beneficiaries is accepted. In this year too, **the frequency of the errors found** — including some contained in final claims which had been subjected to *ex ante* external audits and expenditure verifications — points to weaknesses in these checks.

In 2016, DG DEVCO carried out its **fifth RER study** to estimate the level of error which had evaded all management checks to prevent, detect and correct errors across its entire area of responsibility.

It reviewed the 2016 RER study and found that it had been conducted in compliance with the RER methodology. All weaknesses reported in the Court’s 2013 report had been addressed, with the exception of the RER-specific estimation method, which still left too wide a margin for judgement when estimating individual error rates.

DG DEVCO reports an **amount at risk at closure** (EUR 105 million) taking into account the likely effect of checks in subsequent years (‘corrective capacity’). The Court believes that the reliability of the 2016 corrective capacity figure is still impaired.

Recommendations of the Court: in order to address the shortcomings noted above, the Court recommends that the Commission:

- strengthens the **monitoring of old open expired EDF contracts** in order to further reduce their number;
- completes the revision of the **terms of reference** for all its audits and expenditure verifications by the end of 2017;
- extends the actions in its **2017 action plan** to also cover grants and programme estimates under indirect management in the AAR reservation;
- considers reducing the extent of the RER substantive testing of individual low-risk budget support transactions and reallocating the saved resources to increase the substantive testing of project-related transactions;
- further improves the **calculation of the 2017 corrective capacity** by addressing the shortcomings identified in this annual report.

The Commission accepts all of these recommendations.