# 2017 discharge: 8th, 9th, 10th and 11th European Development Funds (EDFs)

2018/2177(DEC) - 04/10/2018 - Court of Auditors: opinion, report

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 2017.

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 Member States and are implemented either through individual projects or through budget support (a contribution to a country's general or sector budget). Each EDF is governed by its own financial regulation.

The EDFs are managed outside the framework of the EU budget by the European Commission (which manages the biggest part) and the European Investment Bank.

For 2017, EUR 3.5 billion of expenditure was subject to audit in this area.

***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.

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 2017 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, 2017:

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

- EDF payments were affected by a significant level of error estimated at 4.5 % (compared to 3.3 % in 2016). The Court therefore gave an adverse opinion on the legality and regularity of payments underlying the accounts.

Expenditure not incurred accounted for 42 % of the overall rate of error in the EDFs. Other significant types of error include missing essential supporting documents, and non-compliance with procurement rules.

***DG International Cooperation and Development (DEVCO)'s efforts to improve the implementation of its control system***

In 2017 DG DEVCO carried out its sixth 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. No substantive testing was carried out for 67 % of the transactions because full reliance was placed, incorrectly or without proper justification, on previous control work. Due to this, combined with the errors detected, it was concluded that the 2017 results cannot be compared to those from previous years. This has an impact on the residual error rate. The Commission did not properly monitor the work carried out by the RER contractor and therefore was unable to prevent the problems from occurring

***Conclusions***

Currently, there is an inconsistency between the budgetary process (EP is not involved) and the accountability process (EP is partly involved in the discharge). The possible future integration of the EDFs within the EU general budget could mitigate the risks associated with this inconsistency (artificial annual budgetary discharge and absence of budgetary power of the EP).

***Recommendations of the Court***

In order to address the shortcomings noted above, the Court recommends that the Commission:

- closely monitor the implementation of the residual error rate study, in particular to ensure that, where full reliance is placed on previous control work, this is in line with the applicable methodology and properly justified;

- again disclose in the annual activity report the limitations of the residual error rate study, which assumes that the untested population is free from error;

- take decisive steps to enforce the guidance on accepting expenditure to avoid excess clearings;

- adopt measures to ensure that only incurred costs are certified as expenditure for Africa Infrastructure Trust Fund transactions;

- add an indicator to monitor the age of advance contributions to trust funds;

- propose a relevant solution to the EDFs' budgetary and accountability inconsistencies as part of the current post-Cotonou studies.