2001 discharge: European Agency for reconstruction budget and aid for Kosovo

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PURPOSE : to present the report from the Court of Auditors on the financial statements of the European Agency for Reconstruction for the financial year 2001. CONTENT : the appropriations entered in the budget for the financial year 2001 amounted to EUR 410,6 million. In reality, after taking into account EUR 0,6 million in counterpart funds, which were not entered in the budget. The Agency had an outstanding balance of EUR 411,6 million to be committed against appropriations granted by the Commission in 2000. This amount included an estimate of the appropriations required to continue the programmes of assistance to Serbia managed by the Commission. More precise estimates by the Agency led to its cancellation of EUR 120,7 million of the appropriations related to these programmes. In its Annual Report concerning the financial year 2000 (please refer to the procedure reference Dec/2001 /2238), the Court pointed out weaknesses in the Agency's budgetary accounting. The Agency began installation of the SI2 computerised budgetary accounts system during the second half of 2001. In addition, the Agency also had to incorporate into this system the financial data relating to numerous projects which had previously been managed by the Commission. The Agency took the accumulated values for the projects as its basis for the purpose of incorporating the existing data into the SI2 system. Because of this, it is not always possible, in the SI2 context, to identify the original financial year of the appropriations used and, in the case of the payments made in 2001 for the projects initiated by the Commission, to distinguish between those payments made by the Agency and those made by the Commission. Although the Court was able to obtain reasonable assurance that the basic data were reliable, in order to obtain an accurate impression of the implementation of the budget, auxiliary tools constructed on the basis of electronic data sheets must be used. These tools are not easy to apply. The Agency should reduce or even eliminate the necessity of resorting to these tools, which have a definite inherent risk of error. As regards the financial statements, the Court notes that the financial statements sent by the Agency contained errors. In 2001, each Agency establishment kept its own accounts. Reconciliations should have been made regularly to ensure that these accounts were consistent with the central accounts. As regards the housing programme, one of the priorities ascribed to the Agency concerns the repair or rebuilding of housing damaged during the hostilities, especially amongst the poorest sections of the population. The Court has analysed the results achieved as a result of implementing this action in 2000. Although the total number of houses rebuilt exceeded the target initially set by 4 %, the breakdown of these houses in accordance with the type of work to be carried out diverges considerably from that envisaged in the contracts and subsequent amendments. For example, the number of units viewed as needing to be completely rebuilt is practically double. Such information should prompt the Agency to look into ways of improving the selection of the work to be carried out, so that genuine needs are met more effectively. Concerning the follow-up of previous observations concerning the Agency's efficiency, the Court states that the Agency has beenable to maintain a high level of commitments and payments, whilst keeping staff and operating costs low by pursuing its policy of reducing the advances paid to its contractors, but paying them promptly once work has been completed. In line with the recommendation made by the Court, the Agency continued to focus its efforts on areas deemed to be priority areas. As of 2001, emphasis was placed on institutional measures. Another recommendation concerned the measures to be taken to assure the stability of actions financed by the EU. To this end, the Commission, in cooperation with the United Nations Organisation, prepared action plans for five key sectors. At the end of 2001, it decided that the actions plans would now include objectives and performance indicators. The European office of the United Nations Interim Administration Mission in Kosovo monitors the implementation of these plans by means of quarterly reports. The Commission should continue to develop and intensify its cooperation with the United Nations Organisation for the purpose of monitoring and evaluating the programmes and thus ensuring the sustainability of their impact. Monitoring systems have been set up at Agency level. However, there is no global monitoring plan which would ensure that all projects were monitored

systematically. An evaluation unit has been set up and has issued its first evaluation reports. Recommendations made in these reports are applied when future activities are programmed. The Court has also identified problems in the management of the energy sector. The EAR replied to the preliminary observations about the EAR's 2001 financial accounts. It states that : - as regards the budget execution : the Agency entered the cumulative amounts of payments prior to the introduction of SI2 because it was impracticable to reproduce one by one all the historical of payments for several years of assistance (Kosovo, Serbia and Montenegro since 1998 and FYROM since 1996); - as regards the application of financial rules : the Agency recovered all debts from third parties using specific internal forms as recovery orders; - concerning the housing programme: the fact that the objectives were exceeded is particularly significant considering that for the 2001 programme over 80 % of the reconstructed houses were classified as fully destroyed.