2004 discharge: European Agency for Reconstruction

2005/2108(DEC) - 10/11/2005 - Court of Auditors: opinion, report

This report from the Court of Auditors concerns the results of the audit carried out by the Court on the annual accounts of the European Agency for Reconstruction for the financial year ended 31 December 2004.

The Court states that its audit was planned and performed to obtain reasonable assurance that the accounts are reliable and the underlying transactions are legal and regular. The Agency's accounts for the financial year ended 31 December 2004 are, in all material respects, reliable. The transactions underlying the Agency's annual accounts, taken as a whole, are legal and regular. The observations which follow do not call the Court's opinion into question.

The report shows that the appropriations entered in the final budget amount to EUR 374.6 million with EUR 299 million committed and EUR 91.2 million paid. EUR 207.9 million was carried over to 2005, and EUR 6.5 million cancelled. The outstanding commitments carried over from the previous financial year were EUR 346.9 million.

The Court makes the following observations:

- although significant funds were maintained throughout the year, the Agency has no active treasury management policy in place; considerable amounts are maintained on current bank accounts without their earnings being checked by the Agency;

- reconciliations between bank accounts and the Agency's accounting records are not regularly carried out. With the introduction of accruals accounting in 2005, it is even more relevant that bank accounts be reconciled with the accounting records on a monthly basis;

- in the absence of effective internal control procedures for long-term receivables the Court cannot be certain that the transactions relating to counterpart funds, credit line schemes and special funds have been completely recorded;

- one of the main problems the Agency faces is the difficulty in recruiting agents capable of carrying out the difficult tasks with which it is entrusted. The policy of renewing the mandate of the Agency for short periods of time increases this problem as very few individuals with the required profile will relocate under these circumstances;

- in its 2003 report, the Court noted anomalies which had affected decisions in awarding contracts. In 2004 this situation was again observed. Tenders are the subject of formal procedures which constitute the main guarantee against unequal treatment between tenderers. It is therefore essential to ensure that procedures are strictly applied. Many of the difficulties encountered were due to the fact that criteria set in calls for tender were open to interpretation because they were unsuited to the practical situation;

- a review of operations entrusted to the United Nations Mission in Kosovo (UNMIK) was carried out. It has covered all 16 operations still open in the Agency's accounts totalling 30.7 million euro (2004 payments EUR 2,5 million). In those cases where UNMIK is directly managing the contracts, the Agency

made payments without exercising adequate financial control. The frequent absence of audit trail requires an in-depth review of the applicability of the agreement signed between the Commission and the United Nations;

- in the cases of funds where UNMIK was acting on behalf of the local government departments, the management of these operations was entirely left to these departments. The Agency has not paid sufficient attention to the proper financial organisation

of the beneficiaries because it assumed this was the legal responsibility of UNMIK and was then faced with serious difficulties in closing the operations mainly due to an absence of adequate accounts for the projects and of sufficient justification for the expenditure;

- concerning supporting documentation for payments, a standardised system of dealing with payment requests needs to be adopted and criteria set on the kind of supporting evidence that is necessary for a payment to be made.

The Agency responds point by point to the Court's observations:

- the funds available in the Agency's bank accounts are commensurate with its disbursement needs, taking into account that payments may reach peaks of EUR 45 million in a single month and that there was in December 2004 a total outstanding amount of EUR 345 million to be paid on contracted funds. Disruption in treasury due to delays in receiving the requested tranches of the EC subsidy also needs to be avoided. The Agency follows a treasury policy in line with the Commission's practice. Following the Court's observation, guidance from DG Budget will be sought. Recovery orders are issued to ensure proper recording in the accounts. In 2004, EUR 2.9 million was earned on the EAR bank accounts;

- the Agency agrees to perform bank reconciliations on a monthly basis;

- in accordance with its commitments taken in the context of the 2003 discharge procedure, the Agency has entered in the final 2004 accounts the original value of the investment less a provision for bad debts for all counterpart funds and credit line schemes and the unspent amount for special funds. All of these activities have undergone or are undergoing external audits in 2005. The Agency considers that the accounts provide a fair and complete view of the EAR long term receivables. Any minor adaptation needed will be made in the 2005 balance;

- the Agency operates under difficult circumstances in a demanding environment and is fully aware of the risk involved in managing substantial amounts of assistance under such conditions. It therefore established an elaborated procurement system with clear division of tasks amongst its operational, procurement and finance staff. The EAR has taken appropriate measures to address the issues raised by the Court in its annual report for 2003 finalised and published end of 2004; thus the improvements could not be visible in 2004 but will be appreciated in the context of the audit for the 2005 exercise;

- the Agency attempts to ensure that UNMIK respects its relevant obligations. The EAR's policy is to insist on receiving in due time and form the reports provided for in the contracts, and to reject them if inappropriate. No further payments are made without checking the financial data and documents required. The EAR also funds audits at the most appropriate stage of implementation, normally in view of, or immediately after, the closure of a contract. These audits are 'subject to the internal and external auditing procedures laid down in the Financial Regulations, rules and directives of the United Nations';

- the terms of the EAR grant agreements with UNMIK are clear on the respective shares of responsibility. UNMIK is the responsible organisation regarding government departments. Conscious of the difficulties

mentioned, the Agency provided technical and financial advice in the framework of certain grant agreements. This practice will be further extended in future. The Agency's final payments to UNMIK are conditional on the respect of financial requirements, based on reports by independent auditors;

- the Agency uses a workflow (financial circuit) with two verifications prior to authorisation and standard checklists. An Instruction Note with the detailed procedure for processing invoices was updated in mid-2004. Efforts to further strengthen and standardise these rules will continue.