2005 discharge: European Agency for Reconstruction

2006/2155(DEC) - 19/12/2006

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 2005.

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 report shows that the appropriations entered in the final budget amount to **EUR 307 512 000** with EUR 101 000 000 committed and EUR 40 338 000 paid. EUR 60 667 000 was carried over to 2006, and EUR 2 900 000 cancelled. The outstanding commitments carried over from the previous financial year were EUR 309 139 000.

The Court makes the following observations:

- the role and tasks of the internal auditor are not sufficiently defined and do not always correspond to the duties assigned to this post;

- the internal audit work carried out in 2005 is not formally reported to management;

- following the Court's observations raised in the 2003 and 2004 annual reports, the Agency took measures to improve the way contracts are awarded. This resulted in increased transparency in various areas; for instance, important decisions made during the evaluation process which affect the contract award are better documented. This in turn has improved the overall discipline over the evaluation and contract award procedures;

- notwithstanding the above, the Court noted several cases where anomalies were due to the fact that the selection criteria chosen are unrealistic as they are ill-suited to the circumstances in which the Agency is operating;

- on the other hand, the Court welcomes the progress made in the area of tendering and encourages the Agency to further intensify its efforts in order to ensure that the contracts awarded fully comply with all regulatory provisions;

- in its 2004 report the Court noted, in a review of operations entrusted to the United Nations Mission in Kosovo (UNMIK), an absence of adequate financial control by the Agency in making payments and serious difficulties in closing operations, mainly due to an absence of adequate accounts for the projects and of sufficient justification for the expenditure. Although the Agency made significant efforts in 2005 to resolve the situation, the problems for closing operations remained. The audits carried out by private audit firms on behalf of the Agency on a number of projects confirmed that funds had to be recovered from beneficiaries, an issue the Agency has not yet addressed. These problems could be resolved if the Agency ensured that the terms of the agreement applicable to the management of these funds were complied with.

The Agency responds point by point to the Court's observations. Firstly, it states that it has been a pioneer in establishing an Internal Audit Capability, a function that does not yet exist in most of the Agencies. Further refinements of the selection criteria are being continuously implemented in order to have

consistently realistic and verifiable criteria in tender documents. This also facilitates the preparation of compliant offers by tenderers. To the extent that this was allowed by the applicable provisions of the Financial and Administrative Framework Agreement between the EC and the UN, and by the administrative situation on the ground, the Agency followed a stricter approach that often led to refusing or delaying payments in the absence of adequate justification or proof of expenditure. Audit reports are rendered obligatory, and the UNMIK or other UN instances concerned are firmly reminded that final payments on accomplished projects will only be made up to the amount certified by a valid external audit. For advanced funds which have not been used in accordance with the provisions of the relevant grant agreement, the recovery process has been launched.