

I

*(Information)***COURT OF AUDITORS****REPORT BY THE EXTERNAL AUDITOR ON THE COURT OF AUDITORS' ACCOUNTS FOR THE
FINANCIAL YEAR 2004***(2005/C 299/01)*

NOTE TO READERS

Without prejudice to the provisions of Article 248 of the Treaty establishing the European Community, which gives the Court of Auditors responsibility for auditing all of the Community's revenue and expenditure, and the provisions of Article 276 of the said Treaty on the granting of the discharge, the Court of Auditors has had its revenue and expenditure accounts audited by an external auditor every year since the close of the financial year 1987.

The reports which the external auditor of the Court of Auditors drew up in respect of the Court's accounts for the financial years 1987 to 1991 were sent only to the Chairman of the European Parliament's Budgetary Control Committee.

Pursuant to a decision taken by the Members of the Court of Auditors at the Court meeting of 8 July 1993, the external auditor's reports have since been published in the *Official Journal of the European Union*, starting with the report on the financial year 1992.

For the Court of Auditors
Hubert WEBER
President of the Court

CONTENTS

	<i>Page</i>
Certificate concerning the regularity and fairness of the financial statements at 31 December 2004	3
Report on the administrative and accounting procedures, the soundness of the financial management and the internal control system	4
Financial statements at 31 December 2004	5

Certificate concerning the regularity and fairness of the financial statements at 31 December 2004

To the Members of the European Court of Auditors

In accordance with the instructions given to us by the European Court of Auditors, we have examined:

- the accounting data sent by the European Court of Auditors to the Commission for the purpose of drawing up the revenue and expenditure account and the balance sheet of the European Communities for the financial year 2004,
- the financial statements of the European Court of Auditors at 31 December 2004, which were drawn up on the basis of the same accounting data and prepared for the purpose of publication in the *Official Journal of the European Union*.

The accounting data and the financial statements are the responsibility of the European Court of Auditors. Our responsibility is, on the basis of our audit work, to express an opinion on the accounting data and the financial statements.

We have conducted our work in accordance with international auditing standards. These standards require us to plan and carry out our work in such a way as to obtain reasonable assurance that the accounting data and the financial statements do not contain any material misstatement. As required, the audit included an examination, on the basis of a sample, of the evidence in support of the amounts and information contained in the accounting data and financial statements. It also included an appraisal of the accounting principles and practices applied and of the significant estimates used by the European Court of Auditors in drawing up the accounts, as well as a review of their overall presentation. We think that the audit provided a reasonable basis for the opinion expressed.

In our opinion, the enclosed accounting data and financial statements give a true and fair view, in accordance with the Financial Regulation, the implementing rules, generally accepted accounting principles and the European Court of Auditors' Internal Rules, of the assets and the financial position of the European Court of Auditors at 31 December 2004 and of the economic result and the revenue and expenditure for the financial year then ended.

Your attention is drawn to the information given in note 1 of the Annex to the financial statements, to the effect that, in accordance with accounting standard No 12 (Employee benefits), which was adopted on 28 December 2004 by a decision of the Commission's accounting officer pursuant to Article 133 of the Financial Regulation applicable to the general budget of the European Communities, on 31 December 2004, for the first time, the Court recorded a provision for its Members' pensions combined with a long-term claim on the Member States to the value of 43 689 621 euro. The amount of the provision was calculated on the basis of an actuarial analysis carried out by the European Commission.

Luxembourg, 27 September 2005.

KPMG Audit S.à.r.l.
Auditors
P. WIES

Report on the administrative and accounting procedures, the soundness of the financial management and the internal control system

To the Members of the European Court of Auditors

As part of our audit of the annual financial statements of the European Court of Auditors for the financial year ending 31 December 2004, we examined the administrative and accounting procedures, the soundness of the financial management and the internal control system. The purpose of our examination was to ensure that the various departments of the European Court of Auditors can be reasonably sure that:

- they have a clear view of the extent to which operational objectives are being achieved,
- the basis on which the published financial statements are drawn up is reliable,
- the financial management of the Court of Auditors complies with current regulations.

The current regulations in question are:

- Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities,
- Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities,
- the Internal Rules of the European Court of Auditors for the implementation of the general budget of the European Union, laid down by Court Decision No 80-2003 and adopted by the Court at its meetings held on 17 and 18 December 2003.

Court Decision No 80-2003 on the Internal Rules of the European Court of Auditors for the implementation of the general budget of the European Union cancels and replaces Decision No 97-47 of 4 December 1997 and took effect on 18 December 2003.

We therefore examined very closely the control environment, risk evaluation, control activities, information and communications systems and management procedures of the European Court of Auditors. The initial descriptive phase was followed by a systems evaluation based on sample checks of supporting documents and interviews with staff. The nature and extent of the tests were determined by our appraisal of the control environment. We think that our work forms a reasonable basis for our conclusions regarding the European Court of Auditors' procedures, the soundness of its financial management and its internal control system.

In our opinion the current internal control rules ensure that the operational objectives are achieved satisfactorily, the financial statements are reliably drawn up and the legal framework is complied with.

Luxembourg, 27 September 2005.

KPMG Audit S.à.r.l.
Auditors
P. WIES

Financial statements at 31 December 2004

Balance sheet at 31 December 2004 and 31 December 2003

(in 1 000 euro)

	Notes	2004	2003
ASSETS			
Intangible fixed assets	2	415	433
Tangible fixed assets	2	42 161	42 676
Land and buildings		39 094	11 329
Plant, machinery and tools		230	212
Furniture and vehicle fleet		675	373
Computer hardware		1 289	905
Other tangible fixed assets		783	957
Tangible assets in course of construction, advances and payments on account in respect of tangible assets		90	28 900
Financial assets	3	—	555
Other financial assets		—	555
Stocks	4	197	179
Short-term assets	5	1 384	1 142
Current assets		819	747
Sundry debtors		565	395
Long-term assets	6	43 689	—
Disposable assets	7	7 108	6 434
Total assets		94 954	51 419
LIABILITIES			
Own capital	8	43 252	43 850
Economic result of the financial year		(598)	11 922
Results carried over from previous years		43 850	31 928
Pensions provision	6	43 689	—
Long-term liabilities	9	19	72
Other long-term liabilities		19	72
Short-term liabilities	9	7 994	7 497
Current liabilities			
— Community institutions and bodies		7 055	6 860
— Sundry creditors		939	637
Total liabilities		94 954	51 419

The notes annexed hereto form an integral part of these financial statements.

Statement of economic result at 31 December 2004 and 31 December 2003

		(in 1 000 euro)	
	Notes	2004	2003
Positive adjustments			
Decrease in expenditure: increase in assets			
— Intangible fixed assets	2	257	193
— Tangible fixed assets	2	2 827	13 221
— Stocks	4	29	22
Write-backs of depreciation	2	190	496
Revenue arising from budgetary entitlements acquired during the financial year and not collected	10	393	677
<i>Total</i>		3 696	14 609
Negative adjustments			
Decrease in revenue: decrease in assets			
— Tangible fixed assets	2	191	498
— Stocks	4	11	12
— Collection of entitlements established in previous years	11	564	197
Allocation for depreciation	2	3 616	1 979
Allocation for value write-downs		2	—
Non-budgetary expenditure	12	(90)	1
<i>Total</i>		4 294	2 687
Economic result for the year	8	(598)	11 922

The notes annexed hereto form an integral part of these financial statements.

Statement of revenue and expenditure for the financial years ended 31 December 2004 and 31 December 2003

		(in 1 000 euro)	
	Notes	2004	2003
Revenue			
Contribution from the general revenue of the European Communities		71 275	79 574
European Court of Auditors' own revenue	13		
— Community levies and dues deducted from remuneration		11 195	9 624
— Revenue accruing from administrative operation	14	1 880	801
— Miscellaneous revenue		90	20
<i>Total revenue</i>		84 443	90 019
Expenditure			
Expenditure relating to persons working for the institution	15, 17		
— Members of the institution		8 586	6 579
— Staff in active employment		59 316	53 222
— Missions and duty travel		2 030	1 979
— Other		2 089	1 830
		72 021	63 610
Operating expenditure			
— Expenditure on immovable property		5 459	15 250
— Expenditure on IT		2 761	1 865
— Movable property and associated costs		1 586	662
— Current administrative expenditure		671	701
— Publishing and information		709	1 204
— Other		1 013	570
		12 199	20 252
<i>Total expenditure</i>		84 220	83 862
Balance for the financial year	16	223	6 157

The notes annexed hereto form an integral part of these financial statements.

Notes to the financial statements at 31 December 2004

ACCOUNTING PRINCIPLES

1. The accounts of the European Court of Auditors (the Court) are kept and the financial statements are drawn up in accordance with the provisions of Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities and Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of Regulation (EC, Euratom) No 1605/2002.

It was decided in 2004 to delete the 'Transitional accounts' headings from both sides of the balance sheet and to include these accounts under current assets and sundry creditors respectively.

The figures shown for the corresponding items in the previous year have been adjusted as required to ensure that they are comparable.

In accordance with accounting standard No 12 (Employee benefits), which was adopted on 28 December 2004 by a decision of the Commission's accounting officer pursuant to Article 133 of the Financial Regulation applicable to the general budget of the European Communities, since 2004 the Court has recorded a provision for its Members' pensions to the value, calculated actuarially, of the commitments arising from the length of service at the date of calculation. The Court balances this provision by means of a long-term claim on the Member States. The corresponding figures for 2003 have not been adjusted.

BALANCE SHEET

2. **Tangible and intangible fixed assets**

The 'Intangible fixed assets' heading includes computer software packages that have been acquired and are covered by a site licence or a major account contract.

	<i>(in 1 000 euro)</i>
	Computer software
<i>Acquisition value</i>	
At the end of the preceding financial year	959
Changes over the financial year	
— Acquisitions in the financial year	258
At the end of the financial year	1 217
<i>Depreciation and value write-downs</i>	
At the end of the preceding financial year	(526)
Changes over the financial year	
— Recorded	(276)
At the end of the financial year	(802)
Net book value at end of financial year	415

The increase in the item 'Land and buildings' comes to 27 765 000 euro and is mainly composed of the acquisition value of a second building which the Court began to use in 2004 and which was purchased by the Court for 27 969 000 euro net after depreciation.

The Court's tangible and intangible fixed assets are assessed at their acquisition value in the national currency, converted into euro at the accounting rate in force at the time of purchase.

The cost of acquiring land and the net value, calculated after depreciation, of the remaining tangible fixed assets are entered on the assets side for the entire period of their use.

Tangible fixed assets other than land and buildings are only recorded in the fixed assets accounts if the cost of acquiring or producing them is 420 euro or more, they are in use for longer than one year and they are not consumables within the meaning of Article 222 of Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities.

The Court has calculated the depreciation of its fixed assets as required by Commission Regulation (EC) No 2909/2000 of 29 December 2000 on the accounting management of the European Communities' non-financial fixed assets.

Changes in value and depreciation, calculated using the straight-line method and by complete year, were as follows at the end of the financial year:

(in 1 000 euro)							
	Land and buildings	Plant, machinery and tools	Furniture and vehicle fleet	Computer hardware	Other tangible fixed assets	Fixed assets in the course of construction and payments on account	Total
<i>Acquisition value</i>							
At the end of the previous year	24 560	1 293	1 527	2 730	1 044	28 900	60 054
Changes over the year:							
— Acquisitions	830	107	513	1 046	—	686	3 182
— Disposals and withdrawals	—	(14)	(81)	(95)	—	—	(190)
— Transfers from one heading to another	29 135	—	—	—	—	(29 135)	—
— Other changes	—	—	5	—	—	(361)	(356)
At the end of the financial year	54 525	1 386	1 964	3 681	1 044	90	62 690
<i>Depreciation and value adjustments</i>							
At the end of the previous year	(13 231)	(1 081)	(1 154)	(1 825)	(87)	—	(17 378)
Changes over the year:							
— Recorded	(2 200)	(89)	(216)	(662)	(174)	—	(3 341)
— Cancelled following disposal, withdrawal	—	14	81	95	—	—	190
— Other adjustments	—	—	—	—	—	—	—
At the end of the financial year	(15 431)	(1 156)	(1 289)	(2 392)	(261)	—	(20 529)
Net book value at end of financial year	39 094	230	675	1 289	783	90	42 161

3. Financial assets

In 2004 the balance of the working capital made available to the Office for Official Publications of the European Communities, which accounted for a total of 555 000 euro under the sub-heading 'Advances granted', was reimbursed.

(in 1 000 euro)		
	2004	2003
Claims relating to Community institutions and bodies	49	57
Sundry debtors	770	690
Total	819	747

4. Stocks

The stocks comprise office supplies and other consumables, valued at the price of the last supplies entered. Where the acquisition cost is expressed in a national currency, it is converted into euro at the exchange rate used in drawing up the balance sheet.

The item 'Sundry debtors' consists essentially of sums receivable, virtually all of which are attributable to the acquisition of national pension rights by members of the institution's staff.

5. Short-term assets

The item 'Current assets' can be broken down as follows at the year-end:

The sundry claims mainly concern advances paid on mission expenses already incurred by the Members and staff of the Court but not yet charged.

6. Long-term assets and pensions provision

The Court decided to establish, at 31 December 2004 and for the first time, a provision for expenditure on its Members' pensions, offset by a claim for the same amount on the Member States (see note 1).

7. Disposable assets

The item 'Disposable assets' consists of a request in transit to the European Commission for funds to the value of 5 500 000 euro (2003: 5 500 000 euro), in accordance with Chapter IX of the Accounting and Consolidation Manual of the European Communities (see also note 9.2 below).

8. Own capital

For 2004, the total for own capital comprises the economic result for the year and the results carried over from previous years.

The economic result for the year comprises the result of the implementation of the budget for the year and the result of adjustments.

The result of the implementation of the budget for the year can only be established when the financial statements are consolidated by the European Commission.

Consequently, for the other institutions, the economic result for the financial year is limited to the sum of the positive and negative adjustments entered in non-budgetary expenditure and revenue accounts.

9. Liabilities**9.1. Long-term liabilities**

The item 'Other long-term liabilities' comprises that part of the consulting architect's and engineer's fees that was withheld as a performance guarantee for their work in respect of the extension of the Court building.

9.2. Short-term liabilities

The item 'Community institutions and bodies' comprises the balance to be carried forward to the following financial year and includes the sum of 5 500 000 euro by way of counterpart for the amount of a request to the Commission for funds in respect of payments to be made during January 2005 (see also note 7 above).

The item 'Sundry creditors' mainly comprises sums due in respect of social security and insurance contributions for staff and mission expenses still to be invoiced by the credit card organisation.

10. Revenue arising from budgetary entitlements acquired during the financial year and not collected

This item concerns revenue established during the financial year under review and not yet collected.

11. Collection of entitlements established in previous years

This item concerns revenue established in a previous financial year which has been collected and entered in the accounts in the financial year under review.

12. Non-budgetary expenditure

This item concerns sundry expenditure which could not be materially booked to the budget. For 2004, it relates to the variation for the year in current expenditure invoiced by the Commission.

REVENUE AND EXPENDITURE**13. European Court of Auditors' own revenue**

The Court's own revenue is entered in the accounts on the basis of the amounts actually received during the financial year.

14. Revenue accruing from administrative operation

The item 'Revenue accruing from administrative operation' mainly comprises:

- revenue accruing from the publication of the Court's reports and opinions in the *Official Journal of the European Union*,

- the payment of actuarial reserves by national pension bodies and provident societies by way of transfers of officials' pension rights, and
- interest and comparable revenue.

15. Expenditure

The expenditure for the financial year that is shown in the statement of revenue and expenditure represents the payments made against appropriations for the financial year, appropriations carried over from the previous financial year and appropriations made available following the collection of assigned revenue, in accordance with the provisions of the applicable regulations.

In accordance with Article 6 of the Financial Regulation, the appropriations entered in the budget are authorised for one financial year running from 1 January to 31 December.

16. Financial situation and balance for the financial year

The balance for the year is calculated as the difference between the total revenue for the year and expenditure

against appropriations specific to the year, appropriations carried over from the previous year and appropriations resulting from the collection of assigned revenue.

The changes that occurred during the year were as follows:

	<i>(in 1 000 euro)</i>	
	2004	2003
Balance carried forward from previous years	6 860	703
Balance for the year	223	6 069
Exchange gains/losses for the year	(28)	88
Balance to be carried forward to the following year	7 055	6 860

17. Budgetary implementation

The implementation of the budget for the financial year 2004 can be divided into the implementation of appropriations brought forward and the implementation of appropriations for the financial year.

- (a) Appropriations brought forward represent, on the one hand, all the commitments chargeable to the Court that have been entered into but not paid before the year-end and, on the other hand, appropriations which the budgetary authority has decided to carry forward. Appropriations brought forward from the previous year and not used during the following year lapse.

	<i>(in 1 000 euro)</i>		
	Appropriations carried forward from 2003 to 2004	Payments	Lapsed appropriations
Expenditure relating to persons working for the institution			
— Members of the institution	52	42	10
— Staff in active employment	74	74	—
— Missions and duty travel	529	470	59
— Other	567	474	93
	1 222	1 060	162
Operating expenditure			
— Expenditure on immovable property	1 535	1 356	179
— Expenditure on IT	1 090	1 086	4
— Movable property and associated costs	707	674	33
— Current administrative expenditure	183	147	36
— Publishing and information	509	396	113
— Other	342	316	26
	4 366	3 975	391
Total	5 588	5 035	553

- (b) The implementation of appropriations for the financial year represents the payments made against appropriations committed. The unpaid balance of commitments may be carried forward to the following financial year. Appropriations still uncommitted at the end of the year usually lapse:

(in 1 000 euro)

	Appropriations for the year	Commitments chargeable to the year	Payments	Appropriations carried forward to 2005	Lapsed appropriations
Expenditure relating to persons working for the institution					
— Members of the institution	9 361	8 672	8 544	128	688
— Staff in active employment	68 216	60 095	59 242	853	8 121
— Missions and duty travel	2 810	2 260	1 557	702	550
— Other	3 130	2 373	1 615	759	758
	83 517	73 400	70 958	2 442	10 117
Operating expenditure					
— Expenditure on immovable property	5 186	4 961	4 088	873	225
— Expenditure on IT	3 037	3 037	1 675	1 362	—
— Movable property and associated costs	1 637	1 148	900	248	489
— Current administrative expenditure	796	775	476	299	20
— Publishing and information	1 620	1 619	195	1 424	1
— Other	1 023	994	698	296	30
	13 299	12 534	8 032	4 502	765
Other expenditure					
— Provisional appropriations	109	—	—	—	109
	109				109
<i>Total</i>	96 925	85 934	78 990	6 944	10 991

The payments made against appropriations carried forward (5 035 000 euro), appropriations for the year (78 990 000 euro) and appropriations resulting from assigned revenue (195 000 euro) totalled 84 220 000 euro, which is equal to the total expenditure shown in the statement of revenue and expenditure for the financial year 2004.

The expenditure included under 'Other' expenditure relating to persons working for the institution consists mainly of expenditure on interinstitutional cooperation, translation, the canteen, the crèche, training, recruitment, receptions and representation.

The expenditure included under 'Other' operating expenditure consists mainly of expenditure on telecommunications, meetings, studies and fact-finding missions.

18. Off-balance sheet commitments

Under the framework agreement concerning the construction of one or more extensions to the Court building, which was concluded on 15 December 1999 with the State of Luxembourg, the Court undertook to do everything in its power to acquire from the State the land concerned by the contract. To this end, the Court will approach the budgetary authority for the necessary funds.

The Court also undertook, by virtue of a building rental contract in force until 30 June 2009, to pay the lessor a fixed amount of 175 000 euro for works to renovate the rented building.