

THE COURT'S STATEMENT OF ASSURANCE ON THE 8TH, 9TH AND 10TH EUROPEAN DEVELOPMENT FUNDS (EDFs) TO THE EUROPEAN PARLIAMENT AND THE COUNCIL — INDEPENDENT AUDITOR'S REPORT

(2012/C 347/02)

I. Pursuant to the provisions of article 287 of the Treaty on the functioning of the European Union (TFEU) and Article 141 of the Financial Regulation applicable to the 10th EDF, which also applies to previous EDFs, the Court has audited:

- (a) the annual accounts of the 8th, 9th and 10th European Development Funds which comprise the financial statements <sup>(1)</sup> and the report on financial implementation for the financial year ended 31 December 2011; and
- (b) the legality and regularity of the transactions underlying those accounts within the legal framework of the EDFs in respect of the part of the EDF resources for whose financial management the Commission is responsible <sup>(2)</sup>.

**Management's responsibility**

II. In accordance with Articles 310 to 325 of the TFEU and the Financial Regulations applicable to the 8th, 9th and 10th EDFs, management is responsible for the preparation and fair presentation of the annual accounts of the EDFs and the legality and regularity of the transactions underlying them:

- (a) Management's responsibility in respect of the annual accounts of the EDFs includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies, on the basis of the accounting rules adopted by the EDF accounting officer <sup>(3)</sup>; and making accounting estimates that are reasonable in the circumstances. The Commission approves the annual accounts of the EDFs.
- (b) The way in which management exercises its responsibility for legality and regularity of underlying transactions depends on the method of implementation of the EDFs foreseen in the EDF Financial Regulations. Implementation tasks have to comply with the principle of sound financial management, requiring designing, implementing and maintaining effective and efficient internal control including adequate supervision and appropriate measures to prevent irregularities and fraud and, if necessary, legal proceedings to recover funds wrongly paid or used. Regardless of the method of implementation applied, the Commission bears the ultimate responsibility for the legality and regularity of the transactions underlying the accounts of the EDFs (Article 317 of the TFEU).

<sup>(1)</sup> The financial statements comprise the balance sheet, the statement of economic outturn, the statement of cash flow, the statement of changes in net assets and the table of items payable to the European Development Funds.

<sup>(2)</sup> Pursuant to Articles 2, 3, 4, 125(4) and 134 of the Financial Regulation applicable to the tenth EDF this Statement of Assurance does not extend to the part of the EDFs resources that are managed by the EIB and for which it is responsible.

<sup>(3)</sup> The accounting rules adopted by the EDF accounting officer are derived from International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants or, in their absence, International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. In accordance with the Financial Regulation, the financial statements for the financial year 2011 were prepared on the basis of these accounting rules adopted by the EDF accounting officer, which adapt accruals based accounting principles to the specific environment of the European Union, while the report on implementation of the EDFs continues to be primarily based on movements of cash.

**Auditor's responsibility**

III. The Court's responsibility is to provide, on the basis of its audit, the European Parliament and the Council with a statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions. The Court conducted its audit in accordance with the IFAC International Standards on Auditing and Codes of Ethics and the INTOSAI International Standards of Supreme Audit Institutions. These standards require that the Court plans and performs the audit to obtain reasonable assurance whether the annual accounts of the EDFs are free from material misstatement and the transactions underlying them are legal and regular.

IV. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts and the legality and the regularity of the transactions underlying them. The procedures are selected based on the auditor's judgment, including an assessment of the risks of material misstatement of the accounts and of material non-compliance of the underlying transactions with the requirements of the legal framework of the EDFs, whether due to fraud or error. In assessing those risks, the auditor considers internal control relevant to the preparation and fair presentation of the final accounts, and supervisory and control systems implemented to ensure legality and regularity of underlying transactions, in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made, as well as evaluating the overall presentation of the accounts and the annual activity report.

V. The Court considers that the audit evidence obtained is sufficient and appropriate to provide a basis for its statement of assurance.

**Reliability of the accounts***Opinion on the reliability of accounts*

VI. In the Court's opinion, the annual accounts of the 8th, 9th and 10th EDFs present fairly, in all material respects, the financial position of the EDFs as of 31 December 2011, and the results of their operations and cash flows for the year then ended, in accordance with the provisions of the EDF Financial Regulation and the accounting rules adopted by the accounting officer.

**Legality and regularity of the transactions underlying the accounts**

## R e v e n u e

*Opinion on the legality and regularity of revenue underlying the accounts*

VII. In the Court's opinion, revenue underlying the accounts for the year ended 31 December 2011 is legal and regular in all material respects.

## Commitments

### *Opinion on the legality and regularity of commitments underlying the accounts*

VIII. In the Court's opinion, commitments underlying the accounts for the year ended 31 December 2011 are legal and regular in all material respects.

## Payments

### *Basis for adverse opinion on the legality and regularity of payments underlying the accounts*

IX. The Court's audit revealed that the supervisory and control systems are partially effective. The Court's estimate for the most likely error rate for payments from the 8th, 9th and 10th EDFs is 5,1 %.

### *Adverse opinion on the legality and regularity of payments underlying the accounts*

X. In the Court's opinion, because of the significance of the matters described in the basis for adverse opinion on the legality and regularity of payments underlying the accounts paragraph, the payments underlying the accounts for the year ended 31 December 2011 are materially affected by error.

26 July 2012.

Vítor Manuel da SILVA CALDEIRA

*President*

European Court of Auditors

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