

REPORT**on the financial statements of the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA — Lisbon) for the financial year ended 31 December 1999, together with the Centre's replies**

(2000/C 373/08)

CONTENTS

	<i>Paragraph</i>	<i>Page</i>
THE COURT'S OPINION	1-5	46
MAIN OBSERVATIONS ON THE IMPLEMENTATION OF THE BUDGET OF THE EUROPEAN MONITORING CENTRE FOR DRUGS AND DRUG ADDICTION (EMCDDA — LISBON) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 1999	6-21	46
Analysis of the budgetary implementation	6-7	46
Budgetary accounting system	8	46
General accounts	9	46
Booking of VAT	10	46
Imprest account	11	47
Acquisition of goods and services in the field of data processing	12	47
Management of the contracts with the national centres	13-21	47
Financial implementation	13-14	47
Contractual provisions	15-16	47
Nature and checking of the national co-financing	17-18	47
Activities financed	19-21	47
Tables 1 to 3		49
The Centre's replies		52

THE COURT'S OPINION

1. This report is addressed to the Management Board of the European Monitoring Centre for Drugs and Drug Addiction, in accordance with Article 11(11) of Council Regulation (EEC) No 302/93 ⁽¹⁾.

2. The Court has examined the financial statements of the European Monitoring Centre for Drugs and Drug Addiction for the financial year ended 31 December 1999. In accordance with Article 11(8) of Council Regulation (EEC) No 302/93, the budget was implemented on the responsibility of the Director. This responsibility included the drawing-up and presentation of the financial statements ⁽²⁾ in accordance with the internal financial provisions stipulated in Article 11(12) of Council Regulation (EEC) No 302/93, as amended by Article 1 of Council Regulation (EC) No 3294/94 ⁽³⁾. The Court of Auditors is required under Article 248 of the Treaty establishing the European Community to examine these accounts.

3. The Court performed its audit in accordance with its auditing policies and standards. These have been adapted from generally accepted international auditing standards to reflect the specific characteristics of the Community context. Accordingly, the Court carried out such tests of the accounting records and other auditing procedures as it deemed necessary in the circumstances. By means of this audit, the Court obtained a reasonable basis for the opinion expressed below.

4. This examination has enabled the Court to obtain reasonable assurance that the annual accounts for the financial year ended 31 December 1999 are reliable and that the underlying transactions, taken as a whole, are legal and regular.

5. Without calling into question the audit opinion expressed in paragraph 4, the Court would, however, like to draw attention to the situations described in paragraph 9.

MAIN OBSERVATIONS ON THE IMPLEMENTATION OF THE BUDGET OF THE EUROPEAN MONITORING CENTRE FOR DRUGS AND DRUG ADDICTION (EMCDDA — LISBON) FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 1999

Analysis of the budgetary implementation

6. The amount of final appropriations granted to the Centre for the financial year 1999 was 8,2 million euro, as against 7,6 mil-

lion euro in 1998, i.e. an 8 % increase. Commitments against these appropriations totalled 7,8 million euro; of this amount, 5,6 million euro (71 %) were paid and 2,2 million euro (27 %) were carried over to the following financial year. The bulk of the carry-overs, 1,8 million euro, concerned the Centre's operational expenditure (Title III of the budget — see also paragraphs 13 and 14 below).

7. Of the 2,4 million euro in commitments carried over from 1998, 2,1 million euro (87 %) were used.

Budgetary accounting system

8. In 1999, the Centre introduced the S12 system but continued to use its former system, based on a spreadsheet, on account of the problems encountered with the implementation of S12. The EMCDDA should continue its efforts to make the S12 system completely operational so that it has a single, integrated system for keeping its accounts.

General accounts

9. A debit balance of 149 321,60 euro dating back to the financial years 1996, 1997 and 1998 was regularised by charging it to the outturn. The origin of these balances and the corresponding banking movements could be traced back in the accounts. The transactions were not, however, always backed up by the supporting documents which would have enabled the underlying transactions to be identified. This was the case for approximately 32 000 euro. The Centre's procedures and internal control system should be strengthened to prevent similar situations from recurring.

Booking of VAT

10. Until December 1998, the general Financial Regulation stipulated that expenditure was to be booked inclusive of VAT, as the latter, once refunded, could be reused. Since then ⁽⁴⁾, the general Financial Regulation has laid down that expenditure must be charged exclusive of VAT. The Court invites the Centre to incorporate these new provisions into its own rules.

⁽¹⁾ OJ L 36, 12.2.1993, p. 6.

⁽²⁾ As required under Article 11(10) of Council Regulation (EEC) No 302/93, the accounts for all the Monitoring Centre's revenue and expenditure for the financial year 1999 were drawn up on 13 March 2000 and forwarded to the Centre's Management Board, the Commission and the Court of Auditors. These accounts were received by the Court on 16 March 2000. A summarised version of these accounts is presented in the tables annexed to this report.

⁽³⁾ OJ L 341, 30.12.1994, p. 7.

⁽⁴⁾ See Article 27(2a) of the Financial Regulation applicable to the general budget of the European Communities, as amended by Council Regulation (EC, ECSC, Euratom) No 2548/98 of 23 November 1998 (OJ L 320, 28.11.1998, p. 1).

Imprest account

11. In 1999, 1,4 million euro in payments were made via the imprest account, which represents 26 % of the total payments for the financial year. This method of payment should be cut to a minimum, given the risks involved in its management.

Acquisition of goods and services in the field of data processing

12. An examination of the contracts for the supply of goods and services in the field of data processing has revealed certain shortcomings: products were purchased without consulting the informatics department and they did not meet the required specifications. Data-processing projects should not proceed, and the corresponding purchase decisions should not be approved, until the informatics department has been consulted and all the projects should be run by a person who is suitably qualified.

Management of the contracts with the national centres

Financial implementation

13. In order to help achieve the Centre's aims, virtually half of the operational expenditure is devoted to financing national centres (one per Member State). In 1999, the Centre agreed contracts with these centres worth 1,8 million euro, with 1,5 million euro going to direct support contracts (100 000 euro per centre) and 0,3 million euro to supplementary contracts. The basic contracts were made at the beginning of the year and payments of at least 1,2 million euro (i.e. 80 %) ought to have been made for them by the end of the year. In practice, only 0,95 million euro, i.e. 63 %, had been paid out under these contracts by the year-end. Of the other contracts, involving a sum of 0,3 million euro, 17 % of the total value was paid. Overall, the Centre had to carry over 0,8 million euro of the 1,8 million euro committed for the national centres.

14. Underutilisation of appropriations on this scale points to shortcomings in the Centre's monitoring of its annual work programme. The Centre, in conjunction with the national centres, ought to improve the way it monitors the measures which are financed so as to minimise carry-overs of appropriations and thus ensure stricter adhesion to the principle of annuality.

Contractual provisions

15. The contracts agreed by the Centre make no provision for subcontracting, and yet one of the national centres has used such

arrangements. In view of the nature of some of the work, subcontracting may offer an effective solution, but its use should be subject to the prior authorisation of the Centre.

16. When determining certain costs, it may be useful to apply standard ratios in order to make the cost evaluation easier for the contractors. In such cases, the Centre should ask the contractors for details in order to ascertain whether the rates applied are plausible and should, if need be, set maximum limits.

Nature and checking of the national co-financing

17. The basic contracts and certain supplementary contracts provide for co-financing by the Member State in which the centre is situated. In principle, the national co-financing should at least be equivalent to the financing granted by the EMCDDA. However, it is not stipulated to what extent the national and Community financing provided for under the contracts should result in an increase in the budget of the centre concerned.

18. In practice, co-financing is certified by declarations issued by the centres themselves. Furthermore, an examination of the financial tables annexed to the contracts has revealed disparities in the implementation of the national and Community funding: in some cases, the national co-financing is applied at a global level, in other cases it takes account of the way in which the Community financing is divided up between the various aims pursued by the contracts.

Activities financed

19. The basic contracts agreed in 1999 make provision for four activities. Disparities are apparent in the way in which the national and Community funding is divided up between the planned tasks (see *Table 3*).

20. There are also disparities in the manner in which the aid granted by the Centre is used (see *Table 3*).

21. Whilst disparities in the distribution of the funding can doubtless be partly justified by special circumstances, these disparities do nevertheless seem to be excessive. In particular, it is unusual that one centre takes no action whatsoever with regard to data on reducing the demand for drugs, despite the fact that this is one of the Centre's specific objectives.

This report was adopted by the Court of Auditors in Luxembourg at its meeting of 26 October 2000.

For the Court of Auditors

Jan O. KARLSSON

President

Table 1
Balance sheet for the financial years 1999 and 1998

(1 000 EUR)

Assets	1999	1998	Liabilities	1999	1998
Fixed assets			Fixed capital		
Fixed assets	3 603	3 518	Own capital ⁽¹⁾	3 620	3 547
<i>Subtotal</i>	3 603	3 518	Balance for the financial year	1 617	1 287
			<i>Subtotal</i>	5 237	4 834
Stocks			Current liabilities		
Office supplies	17	29	Automatic carry-overs of appropriations	2 133	2 112
<i>Subtotal</i>	17	29	Non-automatic carry-overs of appropriations	280	280
Readily convertible assets			Balance sundry accounts due	150	405
Commission subsidy	0	570	Counterpart VAT to be recovered	3	4
Balance sundry debtors	37	403	VAT reuse accounts	163	39
Payments against allocated revenue	1	10	Counterpart Commission subsidy	0	570
VAT to be recovered	3	4	Allocated subsidies	265	0
Allocated subsidies	265	0	<i>Subtotal</i>	2 994	3 410
<i>Subtotal</i>	306	987			
Cash accounts					
Bank	4 276	3 230			
Imprest account	49	527			
Transfers in progress	- 20	- 47			
Cash accounts	0	0			
<i>Subtotal</i>	4 305	3 710			
Total assets	8 231	8 244	Total liabilities	8 231	8 244

⁽¹⁾ The amount corresponding to that of fixed assets and stocks excluding the refurbishing of the building (about 1 Mio EUR).

Source: Table drawn up by the Court of Auditors on the basis of the Monitoring Centre's data.

Table 2

Balance for the financial years 1999 and 1998.

(1 000 EUR)

	1999	1998
Revenue		
Commission subsidy	8 156	9 695
Miscellaneous revenue	0	154
Bank interest	0	123
Total revenue	8 156	9 972
Expenditure		
<i>I — Staff in active employment</i>		
Payments	3 367	2 751
Appropriations carried forward	59	138
<i>II — Operation, equipment, buildings</i>		
Payments	637	805
Appropriations carried forward	240	430
<i>III — Operations to implement objectives</i>		
Payments	1 569	1 305
Automatic carry-overs of appropriations	1 833	1 544
Non-automatic carry-overs of appropriations	280	280
Total expenditure	7 985	7 253
Outturn for the financial year	171	2 719
Outturn carried forward from the previous year	1287	– 1 569
Cancelled carry-overs + reuse + cancellation of revenue	380	137
Exchange-rate differences/special charges	– 221	0
Balance for the financial year	1 617	1 287

Source: Table drawn up by the Court of Auditors on the basis of the Monitoring Centre's data.

Table 3

Use of financing granted to the centres by task

	Minima	Maxima	Average (15 centres)
Use of financing ⁽¹⁾ by the centres			
Updating national report	2 %	73 %	24 %
Information on reducing demand	0 %	28 %	11 %
New measures synthetic drugs	2 %	41 %	15 %
Epidemiological indicators	12 %	93 %	50 %
Use by the centres of financing granted by the Monitoring Centre			
Updating national report	4 %	79 %	32 %
Information on reducing demand	0 %	28 %	15 %
New measures synthetic drugs	4 %	40 %	15 %
Epidemiological indicators	7 %	80 %	38 %

⁽¹⁾ Financing granted by the Monitoring Centre and national co-financing.

Source: Table drawn up by the Court of Auditors on the basis of the Monitoring Centre's data.

THE CENTRE'S REPLIES

1 to 7. The EMCDDA welcomes the Court of Auditors' observation that the financial statements for the financial year ended 31 December 1999 are reliable and that the underlying transactions, taken as a whole, are legal and regular.

8. In view of the difficulties experienced in adapting the SI2 software to the needs of the Agencies' accounting systems since its introduction at the beginning of 1999, and because this software relies on external technical support, the Excel spreadsheet has been provisionally maintained in parallel for security reasons, in case the SI2 system crashes and in order to produce certain necessary reports.

9. The EMCDDA confirms the Court's observations and has already taken the necessary measures to prevent this situation arising in the future.

10. In terms of principles, the EMCDDA shares the Court's point of view and would also like to see the principles of the Financial Regulation governing the European Union's General Budget transposed to its Financial Regulation. However, taking into account the constraints imposed by the procedures used by the Portuguese tax authorities for reimbursing VAT, it will examine the advantages and disadvantages of such a transposition before reaching a final conclusion.

11. The EMCDDA has gradually reduced the payments made via the imprest account and will continue to keep them to a minimum in accordance with the Court's observation.

12 to 21. The EMCDDA used appropriations well and was successful at concluding contracts under the given circumstances. The contracts concluded in 1999 by the EMCDDA with the National Focal Points in the Reitox network were of a foreseeable duration and were set to expire automatically in the year 2000. The EMCDDA's follow-up of these contracts was satisfactory and the carry-over of appropriations is due to the time frame established. In the future, the EMCDDA will endeavour as far as possible to make the duration of the contracts correspond to the calendar year, although it acknowledges the fact that due to the nature of the activities concerned, there will always be appropriations to be carried over automatically, in accordance with the applicable regulations.

The EMCDDA will analyse the Court's observations and examine the possibilities for introducing new measures to improve the monitoring and effectiveness of its activities. In this respect, it points out that, following the decision taken by its Management Board, an ad hoc working group has been set up to improve the operation of the Reitox National Focal Points network.