

**STATEMENT OF ASSURANCE BY THE COURT OF AUDITORS CONCERNING THE SIXTH, SEVENTH, EIGHTH AND NINTH EUROPEAN DEVELOPMENT FUNDS (EDFs) FOR THE FINANCIAL YEAR 2003**

(2004/C 291/02)

I — The European Court of Auditors (the Court) has examined the accounts of the sixth, seventh, eighth and ninth EDFs and the underlying transactions for the financial year ending 31 December 2003. These accounts comprise the financial statements, the reports on financial implementation, and the financial statements and information supplied by the European Investment Bank (EIB) <sup>(1)</sup>. Pursuant to the financial regulations the Court is required to provide 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 in respect of the part of the EDF resources for whose financial management the Commission is responsible <sup>(2)</sup>. The Court carried out the audit in accordance with its auditing policies and standards. These are based on generally accepted international audit standards that have been adapted to the context of the EDFs. The Court thus obtained a reasonable basis for the opinions expressed below.

**II — Reliability of the accounts**

Except for the effects of the problems concerning:

- a) amounts payable to the EDFs and not included as assets in the balance sheet at 31 December 2003 (27,5 million euro in recovery orders issued); in the absence of effective internal control procedures the Court cannot give assurance that these amounts are complete <sup>(3)</sup>;
- b) advances (400 million euro); as the Commission has not indicated the total value of the amounts to be recovered, the Court cannot ascertain what fraction is to be added when establishing the debt;
- c) Stabex funds; the Commission can only very partially establish the ACP States' use of the funds (this information was still incomplete at the end of 2003);
- d) the lack of an entry in the balance sheet for the funds transferred to the EIB and not utilised (209 million euro);

the Court is of the opinion that the reports on financial implementation for the financial year 2003 and the financial statements at 31 December 2003 reliably reflect the revenue and expenditure relating to the sixth, seventh, eighth and ninth EDFs for the financial year and their financial situation at the end of the year.

**III — Legality and regularity of the underlying transactions**

*Analysis of the supervisory systems and controls*

As in the case of the 2002 financial year, when the Court drew attention to deficiencies regarding audits of EDF projects and the insufficiency of key controls on compliance with contracts and the reality of the works, supplies and services invoiced, the Court was not able to rely fully on the Commission's supervisory systems and controls in 2003 for the following reasons:

- <sup>(1)</sup> Pursuant to the provisions of Articles 96(1), 100, 101 and 125(2) of the Financial Regulation applicable to the ninth EDF; in practice, this refers, firstly, to the balance sheets and associated statements prepared by the accounting officer and, secondly, to the management accounts comprising the tables prepared by the principal authorising officer in consultation with the accountant. These financial statements are presented for each of the four EDFs and in a comprehensive, consolidated form. The financial statements and information supplied by the EIB are not covered by this Statement (see footnote 2).
- <sup>(2)</sup> Pursuant to Article 103(3) of the above-mentioned Financial Regulation; taken together with Article 1 of the same Regulation, this means that the Statement does not extend to the part of the ninth EDF resources that is managed by the EIB and for which it is responsible.
- <sup>(3)</sup> In his declaration, the Director-General for Budgets expressed two reservations in respect of the EDF accounting system: the first concerned the difficulties of modernising the presentation of assets owing to the system's obsolete design, while the second concerned the management of the accounts.

- a) in 2003, the Commission continued with the implementation in its central services of the **internal control standards** adopted in 2001 <sup>(4)</sup>. However, their effect is limited because their implementation at Delegation level is tied to the devolution process, which will not be complete until the end of 2004, and there is a lack of coordination in the measures implemented;
- b) the **action plans** that were introduced at the time of the 2002 annual activity report or adopted in 2003 have been effective as regards the structure of external audits, follow-up of audit conclusions, analysis of the risks linked to external aid and processing of recoveries. By continuing with these action plans and implementing them fully, the Commission should obtain an effective future framework, particularly at the level of the Delegations;
- c) in the Delegations and ACP States the supervisory systems and controls covering contracts and payments are generally well-designed. However, their implementation could be further improved.

#### *Audit of transactions*

The audit of transactions was based on the documentation available at the Commission in Brussels and, where appropriate, in the Delegations in ACP States, and was also based on on-the-spot audits carried out in six ACP States in order to verify the reality of works, supplies and services. It should be noted that the Court's audit of the legality and regularity of budget support expenditure stopped at the stage where the aid was paid to the beneficiary countries' budgets. The audit did not bring any major problems to light.

#### *Conclusions regarding the legality and regularity of the underlying transactions*

These conclusions are based on analysis of the supervisory systems and controls, audit of a number of transactions, and analysis of the annual activity report and declaration of the Director-General of the EuropeAid Cooperation Office. On that basis, the Court is of the opinion that the problems encountered are not material and that the revenue entered in the accounts, the EDF allocations, the commitments and the payments of the financial year are, taken as a whole, legal and regular.

6 and 7 October 2004

Juan Manuel FABRA VALLÉS

*President*

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<sup>(4)</sup> SEC(2001) 875 adopted by the Commission on 27 June 2001.