



**COUNCIL OF  
THE EUROPEAN UNION**

**Brussels, 1 February 2013**

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**“I/A” ITEM NOTE**

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from: ACP Working Party  
to: Permanent Representatives Committee / Council  
Subject: Relations with the ACP States and the OCT  
– Discharge to be given to the Commission in respect of the financial management of the 8th, 9th and 10th European Development Funds (financial year 2011)

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1. Article 11(8) of the Internal Agreement applicable to the 10<sup>th</sup> European Development Fund, states that the discharge for the financial management of the Fund shall be given by the European Parliament on the recommendation of the Council, which shall act by the qualified majority laid down in Article 8(3) of the Internal Agreement (see OJ L 247, 9.9.2006, p. 32, and OJ L 202, 3.8.2007, p.35)<sup>1</sup>.
2. The ACP Working Party examined the annual Report of the Court of Auditors on the European Development Funds for the financial year 2011, together with the Commission's replies to the Court's observations (see OJ C 344, 12.11.2012, p. 243), in the presence of a representative of the Court of Auditors.

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<sup>1</sup> A similar provision is included in the Internal Agreements governing the 8th and 9th EDFs.

2. At the end of its discussions, the Working Party:
  - agreed to refer to Coreper and the Council the comments in the Annex regarding its examination of the Court's report;
  - asked the Secretariat to draw up draft recommendations for a discharge to be submitted to Coreper and Council for adoption.
  
3. It is therefore suggested that, subject to confirmation by Coreper, the Council should, as an "A" item:
  - adopt the recommendations regarding the discharge to be given by the European Parliament to the Commission in respect of the implementation of operations under the 8th, 9th and 10th EDFs for the financial year 2011, as contained in documents 5190/13, 5191/13 and 5192/13, drawn up by the Legal/Linguistic Experts;
  - order their publication in the Official Journal of the European Union.

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**Comments by the ACP Working Party  
on the Court of Auditors' Annual Report<sup>1</sup>  
concerning the activities funded by the eighth, ninth and tenth  
European Development Funds (EDFs), for the financial year 2011**

**General observations**

The Working Party welcomes the Court's Annual Report concerning EDF activities for the financial year 2011.

In particular, the Working Party notes the CoA's conclusions that:

- the revenue of the EDFs was free from material error;
- the global commitments entered into by the EDFs were also free from material error; but
- the payments made by the EDFs were affected by material error.

It welcomes the fact that, in the Court's opinion, the Commission's report (required by articles 118 and 124 of the 10th EDF Financial Regulation) on the financial management presents an accurate description of the achievement of the operational objectives (particularly concerning financial implementation and control activities), as well as of the financial situation for 2011.

However, the Working Party also notes the adverse opinion on the legality and regularity of payments - especially the most likely error rate of 5,1 % - underlying the accounts as expressed by the Court.

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<sup>1</sup> OJ C 344, 12.11.2012, p. 243.

Therefore, in agreement with the Court, the Working Party considers that improvements should continue to be made in certain important areas, in particular those areas relating to:

- the accuracy of data affected both by material and non-quantifiable errors;
- the organisation and implementation of control systems by means of an effective control strategy;
- the management and monitoring of projects and their supervision by the Delegations and by central services of EuropeAid;
- the capacity of National Authorising Officers.

### **Specific observations**

#### Budget support

The Court acknowledges the improvement brought about as a consequence of the new format for reporting annually on progress in public finance management reforms in recipient countries which was introduced during the second half of 2010 and that all 10th EDF Budget Support Financing Agreements audited in 2011 specify the indicators, targets, calculation methods and verification sources in a clear and unambiguous manner.

The ACP Working Party notes the Court's finding that no errors occurred since the introduction of the revised framework for assessing progress in public financial management in June 2010. The Working Party welcomes the Commission's statement of intent that it will apply this approach rigorously.

The Working Party is of the opinion that the Commission should continue to further improve transparency by sharing the relevant documentation with Member States, particularly in sensitive cases such as those relating to States in a situation of fragility.

## Monitoring and supervision

The Court considered that EuropeAid's supervisory and control systems were effective in EuropeAid's headquarters but only partially effective in delegations. The Working Party takes note of the Commission's interventions for mitigating these risks, by implementing, for the first time in July 2011 the new version of the six-month External Assistance Management Report (EAMR) based on Key Performance Indicators (KPIs). This represents a structural step forward in responding to the deficiencies in CRIS<sup>2</sup> data quality.

## **Conclusions and recommendations**

The ACP Working Party has noted the Commission's replies, in the context of the Court's review of progress in addressing previous recommendations, which are detailed in Annex 3 of the Report and asks the Commission to implement any outstanding recommendations at the earliest opportunity.

While noting the Court's conclusions and recommendations in its latest report (paragraphs 54 to 59), the Working Party is also conscious that the Commission in its replies:

- a) concerning the EuropeAid's supervisory and control systems:
- believes that their supervisory and control systems are effective and have significantly improved year on year as evidenced by the increase in the proportion of entirely regular payments found by the Court in its sample;
  - points out that the recommendations made by the Court in past years have been implemented resulting in significant elements of the key control systems being judged 'effective' by the Court;

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<sup>2</sup> Common External Relations Information System.

- shares the Court's concern regarding the quality of CRIS data that can affect both the accuracy of the data used for the preparation of annual accounts and the effectiveness of the supervisory and control systems, although the encoding errors found have had no material impact on the annual accounts;
- will make available, in early 2013 for the 2012 reporting period, the results for the estimation of EuropeAid's residual error rate, i.e. the financial impact of errors remaining after all planned controls are completed;
- indicated their intention to re-launch EuropeAid's efforts to improve CRIS data quality in 2012 and better link the financial findings of audits to the recovery of funds;
- stated their intention to launch a process designed to learn the lessons of the errors detected by the Court in the contract awarding process and to revise and issue the Practical Guide to Contracts in 2013;
- will consider making EuropeAid's audit planning risk analysis methodology compulsory for the 2013 period onwards.

b) regarding budget support:

- will ensure that the revised format and scheme are rigorously applied by Delegations in order to provide a structured and clear analysis of progress in public finance management; and
- recognises the importance of well defined results, calculation methods and verification sources, depending on agreed strategies and country context.

The Working Party expects that the new Budget Support Guidelines of September 2012 will further contribute to better supervision as well as improved risk assessment and risk management. The Working Party also wishes to emphasise the importance of strictly adhering to the eligibility criteria for budget support.

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