COUNCIL OF THE EUROPEAN UNION

Brussels, 3 December 2012

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COVER NOTE

from:	Mr Vítor CALDEIRA, President of the Court of Auditors
date of receipt:	19 November 2012
to:	Mrs Erato KOZAKOU-MARCOULLIS, President of the Council of the European Union
Subject:	Report on the annual accounts of the European Monitoring Centre for Drugs and Drug Addiction for the financial year 2011 together with the Centre's replies

Sir,

I enclose in all the official languages of the European Union a copy of the Court of Auditors' report on the annual accounts of the European Monitoring Centre for Drugs and Drug Addiction for the financial year 2011.

This report is accompanied by the Centre's replies and will shortly be published in the Official Journal of the European Union.

(Complimentary close).

(s.) Vítor CALDEIRA

Encl.: Report on the annual accounts of the European Monitoring Centre for Drugs and Drug Addiction for the financial year 2011 together with the Centre's replies.

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ΕΥΡΩΠΑΪΚΟ ΕΛΕΓΚΤΙΚΟ ΣΥΝΕΔΡΙΟ
EUROPEAN COURT OF AUDITORS
COUR DES COMPTES EUROPÉENNE
CÚIRT INIÚCHÓIRÍ NA HEORPA

CORTE DEI CONTI EUROPEA
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EUROOPAN TILINTARKASTUSTUOMIOISTUIN
EUROPEISKA REVISIONSRÄTTEN

Report on the annual accounts of the European Monitoring Centre for Drugs and Drug Addiction for the financial year 2011

together with the Centre's replies

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INTRODUCTION

1. The European Monitoring Centre for Drugs and Drug Addiction (hereinafter "the Centre"), which is located in Lisbon, was established by Council Regulation (EEC) No 302/93 of 8 February 1993[1]. Its main task is to collect, analyse and disseminate information as regards drugs and drug addiction in order to prepare and publish information at European level that is objective, reliable and comparable. The information is intended to provide a basis for analysing the demand for drugs and ways of reducing it, as well as, in general, phenomena associated with the drug market[2].

INFORMATION IN SUPPORT OF THE STATEMENT OF ASSURANCE

2. The audit approach taken by the Court comprises analytical audit procedures, direct testing of transactions and an assessment of key controls of the Centre's supervisory and control systems. This is supplemented by evidence provided by the work of other auditors (where relevant) and an analysis of management representations.

STATEMENT OF ASSURANCE

3. Pursuant to the provisions of Article 287 of the Treaty on the Functioning of the European Union, the Court has audited the annual accounts[3] of the Center, which comprise the "financial statements"[4] and the "reports on the

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[1] OJ L 36, 12.2.1993, p. 1. This Regulation and its amendments were repealed by Regulation (EC) No 1920/2006 of the European Parliament and of the Council (OJ L 376, 27.12.2006, p.1).

[2] The ***Annex*** summarises the Centre's competences and activities. It is presented for information purposes.

[3] These accounts are accompanied by a report on the budgetary and financial management during the year which gives further information on budget implementation and management.

[4] The financial statements include the balance sheet and the economic outturn account, the cash-flow table, the statement of changes in net assets and a summary of the significant accounting policies and other explanatory notes.

implementation of the budget"[5] for the financial year ended 31 December 2011, and the legality and regularity of the transactions underlying those accounts.

The Management's responsibility

4. As authorising officer, the Director implements the revenue and expenditure of the budget in accordance with the financial rules of the Center, under his own responsibility and within the limits of the authorised appropriations[6]. The Director is responsible for putting in place[7] the organisational structure and the internal management and control systems and procedures relevant for drawing up final accounts[8] that are free from material misstatement, whether due to fraud or error, and for ensuring that the transactions underlying those accounts are legal and regular.

The Auditor's responsibility

5. The Court's responsibility is to provide, on the basis of its audit, the European Parliament and the Council[9] with a statement of assurance as to the reliability of the annual accounts of the Centre and the legality and regularity of the transactions underlying them.

6. The Court conducted its audit in accordance with the IFAC International Standards on Auditing and Codes of Ethics and the INTOSAI International

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[5] The budget implementation reports comprise the budget outturn account and its annex.

[6] Article 33 of Commission Regulation (EC, Euratom) No 2343/2002 (OJ L 357, 31.12.2002, p. 72).

[7] Article 38 of Regulation (EC, Euratom) No 2343/2002.

[8] The rules concerning the presentation of the accounts and accounting by the Agencies are laid down in Chapters 1 and 2 of Title VII of Regulation (EC, Euratom) No 2343/2002 as last amended by Regulation (EC, Euratom) No 652/2008 (OJ L 181, 10.7.2008, p. 23) and are integrated as such in the Financial Regulation of the Centre.

[9] Article 185(2) of Council Regulation (EC, Euratom) No 1605/2002.

Standards of Supreme Audit Institutions. These standards require that the Court plans and performs the audit to obtain reasonable assurance as to whether the annual accounts of the Centre are free of material misstatement and the transactions underlying them are legal and regular.

7. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts and the legality and 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 requirement of the legal framework of the European Union, whether due to fraud or error. In assessing those risks, the auditor considers internal controls relevant to the preparation and fair presentation of the 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.

8. The Court considers that the audit evidence obtained is sufficient and appropriate to provide a basis for the opinions set out below.

Opinion on the reliability of the accounts

9. In the Court's opinion, the Centre's Annual Accounts[10] present fairly, in all material respects, its financial position as of 31 December 2011 and the results of its operations and its cash flows for the year then ended, in accordance with

[10] The Final Annual Accounts were drawn up on 21 June 2012 and received by the Court on 17 July 2012. The Final Annual Accounts, consolidated with those of the Commission, are published in the Official Journal of the European Union by 15 November of the following year. These can be found on the following website http://eca.europa.eu or http://www.emcdda.europa.eu/.

the provisions of its Financial Regulation and the accounting rules adopted by the Commission's accounting officer[11].

Opinion on the legality and the regularity of the transactions underlying the accounts

10. In the Court's opinion, the transactions underlying the annual accounts of the Centre for the financial year ended 31 December 2011 are legal and regular in all material respects.

11. The comments which follow do not call the Court's opinions into question.

COMMENTS ON BUDGETARY AND FINANCIAL MANAGEMENT

12. The Court identified 51 cases with a total value of 90 053 euro in which appropriations carried over to 2012 were not related to existing legal committments and should have been decommitted and paid back to the Commission. However, the Centre initiated the process too late. As a consequence, due to restrictions imposed by the IT system, the funds will be blocked for one year and will only be decommitted and paid back at the end of 2012.

13. The Centre currently bears the annual cost of about 275 000 euro for unused office space in its former building and in the new Headquarters. The Centre should continue, in cooperation with the European Commission and National Authorities, to seek adequate solutions for the unused office space.

[11] The accounting rules adopted by the Commission's 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.

COMMENTS ON KEY CONTROLS OF THE CENTRE'S SUPERVISORY AND CONTROL SYSTEMS

14. The Centre has not yet adopted and implemented a treasury policy to minimise and spread financial risk while aiming at adequate returns.

15. The Centre has not yet adopted a comprehensive policy on exceptions and deviations from established processes and procedures[12].

OTHER COMMENTS

16. There is room to further improve the recruitment procedures. The questions for oral and written tests were not set before the applications were examined by the selection board.

17. The Centre's procurement files were not always complete and adequately organised[13].

This Report was adopted by Chamber IV, headed by Dr Louis GALEA, Member of the Court of Auditors, in Luxembourg at its meeting of 18 September 2012.

For the Court of Auditors

Vítor Manuel da SILVA CALDEIRA
President

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[12] Internal Control Standards No 8.

[13] Several relevant documents such as the estimation of contract values and letters to unsuccessful tenderers were missing.

Annex

European Monitoring Centre for Drugs and Drug Addiction (Lisbon)

Competences and activities

Areas of Union competence deriving from the Treaty *(Articles 168 and 114 of the Treaty on the Functioning of the European Union)*	The Union shall complement the Member States' action in reducing drugs-related health damage, including information and prevention.
Competences of the Centre *(Regulation (EC) No 1920/2006 of the Parliament and of the Council of 12 December 2006)*	**Objectives** To provide the Union and its Member States with factual, objective, reliable and comparable information at Union level concerning drugs, drug addiction and their consequences. The Monitoring Centre is to focus on the following priority areas: 1) monitoring the state of the drugs problem, and emerging trends, in particular those involving multi-drug use; 2) monitoring the solutions and providing information on best practices; 3) assessing the risks of new psychoactive substances and maintaining a rapid information system; 4) developing tools and instruments to help Member States to monitor and evaluate their national policies and the Commission to monitor and evaluate Union policies. **Tasks** - To collect and analyse data; - To improve data-comparison methods; - To disseminate data; - To cooperate with European and international bodies and organisations and with countries outside the Union; - To identify new developments and changing trends .
Governance	**Management Board** Comprises one representative from each Member State, two representatives from the Commission and two independent experts, designated by the European Parliament, who are particularly knowledgeable in the field of drugs. To adopt the work programme, the general activities report and the budget. To give an opinion on the final accounts. **Executive Committee** *Composition* Chairperson of the Management Board; Vice-Chairperson of the Management Board; Two other elected members from the Management Board representing the Member States; Two representatives from the Commission; **Director** Appointed by the Management Board at the Commission's proposal. **Scientific Committee** Delivers opinions. It consists of, at most, fifteen well-known scientists appointed in view of their excellence by the Management Board following a call for expressions of interest. The Management Board may also appoint a panel of experts to the extended Scientific Committee for the risk assessment of new psychoactive substances. **External audit** Court of Auditors. **Internal audit** The Commission's internal audit service.

	Discharge authority Parliament, acting on a recommendation from the Council.
Resources made available to the Centre in 2011 ***(2010)***	**Budget** 16,27 million euro (*15,90 million euro*). Union subsidy 94,63 **%** *(94,34 %).* **Staff at 31 December 2011** Number of posts in establishment plan: 84 *(84)* Posts occupied: 77 *(78)* + 27 *(27)* other staff (seconded national experts, contract staff and temporary replacements) Total staff: 104 *(105)* Allocated to operational:64 *(63,5)* administrative and IT support: 28,5 *(29,5)* mixed: 11,5 *(12)*
Products and services 2011 ***(2010)***	**Network** The Centre runs a computerised network for the collection and exchange of information called the ''European Information Network on Drugs and Drug Addiction'' (Reitox); this network connects national drug information networks, specialist centres in the Member States and the information systems of international organisations working with the Centre. **Publications** - Annual report on the state of the drug problem in Europe; 22 (*23*) language versions, publication and interactive website); - Selected issues 3 (*3*), EN; - Statistical bulletin and interactive website containing over 350 (*350*) tables and 100 (*100*) graphs; - General report of activities – annual, EN; - Drugnet Europe newsletter – 4 issues, EN (*4*); - Drugs in focus (policy briefings) – 2 (*0*) issues, - Centre Scientific Monograph – 0 (*1*), EN; - Centre Insights – 0 (*0*), EN; - Centre thematic papers – 1 (*1*); - Joint publications – 3: EN (1st); EN (2nd); AR, HR, RU (3rd), *(3*); - Drug profiles – 1 new (*3*) and 17 updated (*14*), DE, EN, FR; - Technical and scientific studies, including Articles and scientific summaries 39 (*26*); - Scientific posters: 2 *(1);* - Data collection, validation, storage and retrieval system (Fonte). **Other websites** Reorganisation/updating/content development of public Centre website including: - Country overviews, - Drug treatment overviews, prevention profiles - European legal database on drugs, - Evaluation instruments bank, - Best practice portal (exchange on drug demand reduction action, harm reduction and treatment modules), - Topic pages, - Publications database. **Promotional material** Conference materials 1 EN (*0*). Media products: 13 (*14*) news releases (4 in 23 languages) and 7 (*9*) fact sheets, EN; 1 Power Point presentation, EN *(23).* **Participation in international conferences, technical and scientific meetings 245** ***(266).***

Source: Information supplied by the Centre.

THE CENTRE'S REPLY

12. The EMCDDA will review its internal process to ensure that, as soon and as much as is possible, outstanding commitments which do not relate to legal obligations are decommitted before the end of the year, on the basis of the information available and foreseeable at that time.

13. The EMCDDA is pursuing and increasing its efforts in this field, in line with the Court's observation and recommendation. For this purpose specific initiatives have been taken with both the European Commission and the relevant National Authorities.

14. In line with the Court's observation and further to the prudent measures already taken to reduce the risk at stake, the EMCDDA will put in place an appropriate policy aimed at periodically monitoring the possible evolution of this risk.

15. In line with the observation of the Court and further to the procedures already in place, the EMCDDA is going to review its policy on exceptions to explicitly cover any exception that reflects a deviation from any rule formally adopted and in force at the EMCDDA.

16. Further to the Court's recommendation the EMCDDA will assess the possibility of an earlier definition of the questions for oral and written tests, by evaluating the possible risks, costs and benefits of such a measure.

17. The documents that were not in the files audited were duly provided, as required. The EMCDDA has put in place specific checklists for procurement files, to further ensure that all required documents are included and appropriately organised.